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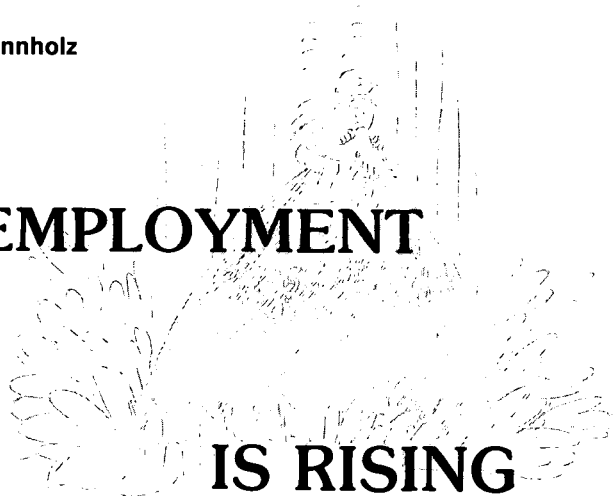
Hans F. Sennholz

UNEMPLOYMENT IS RISING



AFTER almost 40 years of smooth sailing in academic and political waters, the Keynesian ship has run aground. It is taking much water and is beginning to break up. The massive rescue operations that are to free the giant tanker are continuing although the chances of success are small. There is growing concern about the pollution that will follow the breakup.

For the moment, the Keynesian ship is resting on two rocks, inflation and unemployment. Keynesians are calling for help and are offering rich rewards to potential rescuers. Paul A. Samuelson even holds up the hope of a Nobel Prize to the brave deliverer. "No jury of expert economists," he asserts, "can agree on a satisfactory solution for the modern disease of 'stagflation,' many of the proffered cures may be as bad as the disease itself. That is why one can say that some young economist can win for herself or himself a Nobel Prize on the basis of an empirical or theoretical breakthrough that will help the

Dr. Sennholz heads the Department of Economics at Grove City College and is a noted writer and lecturer on monetary and economic affairs.

This article is presented here, by permission, from a paper delivered March 19, 1977 at Arden House in Harriman, New York, at the Fifth Annual Conference of The Committee for Monetary Research and Education, Inc., P.O. Box 1630, Greenwich, Connecticut 06830. The theme of the 3-day conference was "The Wrong and Right Cures for Unemployment."

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mixed economy cope better with the present-day scourge."[1]

Modern inflation, the Keynesians lament, differs from that of the past in that prices and wages continue to rise while there is underemployment of capital and labor. When the monetary and fiscal brakes are applied and the rate of cost-push inflation is limited, the managed economy sinks into deep recession. Without the brakes, the inflation accelerates while unemployment remains high or even goes higher. The Keynesian tools of **C + I + G** (consumer, investment, or government spending) have lost their legendary power.

The Phillips Curve, which was hailed as the political manager's blueprint, has become a big question mark. Its quantification of the trade-off relationship between unemployment and wage rates obviously is more fiction than description. And its pictorial message that a low rate of inflation means high unemployment, and greater inflation less unemployment, is spurious. The fact is that the Keynesian formula of full employment through monetary and fiscal stimulation is finally yielding its foreseen results: *rising rates of inflation together* with growing unemployment.

The Keynesian system contains

... the Keynesian formula of full employment through monetary and fiscal stimulation is finally yielding its foreseen results: *rising rates of inflation* together with growing unemployment.

many errors, too numerous to analyze in this essay. But we must mention just a few that have a bearing on the issue. In particular, we must reject the basic psychological maxim that government can fool all the people all the time with easy money and credit.

Poor Psychology

Lord Keynes was banking on the economic ignorance and stupidity of wage earners and their union agents. He recommended deficit spending and credit expansion as an efficient method for gradually and automatically *lowering* labor costs. Admittedly, lower real wages raise the demand for labor and reduce unemployment. But the success of the Keynesian plan depends entirely on the ability to deceive the workers and their unions or, if this should fail, to persuade them to suffer voluntary losses in real incomes.

Deceit is always the false road to a solution. It weaves a tangled web, which in the end misleads one's self and destroys the confidence of

[1]Paul A. Samuelson, *Economics*, 10th edition, McGraw-Hill Book Co., New York, 1976, p. 820.

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others. While the Keynesians are weaving, the workers are marching in picket lines. They need no Ph.D. in Keynesian economics to understand how rising prices reduce the purchasing power of labor income. They are quick to demand wage boosts that compensate for the rise in goods prices. Moreover, they may force rises in money wage rates that anticipate future purchasing power losses, lest they lose during the life of the contract. Both claims, together with the demand for higher real incomes because of "rising labor productivity," are foiling the Keynesian plan.

The post-Keynesians now admit that the customary dosages of monetary and fiscal policy no longer cause real wages to adjust to clear the labor markets. They speak of a great discovery of a new type of inflation in which labor does not want to be deceived, but continues to push for higher wages regardless of the recipe. In frustration and desperation, the Keynesian professors are developing new theories on "cost-push inflation" and charting new curves that are to explain the dilemma. Abraham Lincoln had the answer to the Keynesian cunning: "You cannot fool all of the people all the time."

Because economic reality does not conform with their doctrines, Keynesians now are joining many utopian and would-be reformers, urging the use of force to fit man into their peculiar mold. To fit economic life into the Keynesian mold, they are debating the use of government force. Wanted: an incomes policy, that is, wage and price controls, or governmental guideposts, or government getting tough with the unions, or some other force of deliverance.

Institutional Unemployment

We recall that Franklin D. Roosevelt, and all presidents since, initiated their own programs for full employment. They all pledged top priority to the problem of mass unemployment. And yet, except for World War II years, unemployment has been our constant companion ever since 1930. In fact, it seems to grow ever more acute as it now makes its ugly appearance even in boom times. Almost eight million Americans are looking for jobs, although the economy is said to be prosperous and growing.

The Carter Administration, like its predecessors, is not really coping with the causes of unemployment. Under the influence of post-Keynesian conceptions it seeks once again to stimulate the economy through deficit spending and credit expansion, through tax rebates and public works, and talks about raising minimum wages and increasing unemployment compensation. It is resorting to the very measures that

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create unemployment rather than alleviate it.

Throughout the Keynesian and post-Keynesian era, the inexorable laws of economics have not changed. Unemployment still is, and always has been, a cost phenomenon. A worker whose employment adds valuable output and is profitable to his employer can always find a job. A worker whose employment inflicts losses is destined to be unemployed. As long as the earth is no paradise, there is an infinite amount of work to be done. But if a worker produces only $2 per hour, while the government decrees a minimum wage of $2.30 an hour plus sizable fringe costs, he cannot be employed. For a businessman to hire him would mean capital loss and waste. In other words, any compulsion, be it by government or union, to raise labor costs above those determined by the marginal productivity of labor, creates institutional unemployment.

A worker whose employment adds valuable output and is profitable to his employer can always find a job. A worker whose employment inflicts losses is destined to be unemployed.

With Friends Like These . . .

The problems of unemployment are badly obscured by popular pseudo-humanitarianism according to which the demand for higher labor costs is a noble demand for the improvement of the conditions of the working man. Politicians and labor leaders who forcibly raise labor costs parade as the only true friends of labor and the "common man," and as the only stalwarts of progress and social justice. Actually, they are causing mass unemployment. Where there is neither government nor union interference with the costs of labor, there can only be voluntary unemployment. The free market offers jobs to all eager to work.

An administration that is genuinely interested in the well-being of the unemployed workers would aim at reducing their employment costs. In order to give new hope to our youth and promote on-the-job training and learning, a humanitarian administration would immediately repeal the minimum wage legislation. Or, as a beginning, it would exempt teenagers from its restrictions. But such a repeal would require greater political courage than displayed by any recent president. However politically expedient, it is nonetheless cruel to promise higher wages and more benefits when the net result can be no other than unemployment.

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The pseudo-humanitarian push for higher labor costs is reinforced by the popular drive for generous unemployment compensation and other benefits for the poor and underprivileged. While we tax and discourage labor, we subsidize unemployment with great generosity. But we are harming millions of people economically and morally: the working population that is chafing under the growing burden of transfer taxation and, above all, the idle millions who are making the collection of public benefits a primary way of life. Unskilled workers whose earnings are relatively small can easily be caught in the intricate web of unemployment benefits. Why should a laborer seek employment at $100 a week if his unemployment benefits, supplementary compensations, severance pay and union support, food stamps, and the like equal or exceed this amount?

Cyclical Unemployment

A particular brand of institutional unemployment is cyclical in nature. It swells the ranks of jobless workers during economic recessions and depressions. According to mainstream economic doctrine, this kind of unemployment is a chronic phenomenon of the individual enterprise order which from time to time suffers from fluctuations in investment or capital goods. Businessmen may make changes in investment which are amplified in a cumulative, multiplied fashion. They will add to the stock of capital, or make net investments, only when the level of national income is growing. Prosperity must come to an end and recession ensues when sales go down, or even when they merely level off or grow at a lower rate than previously. On the other hand, investment demand can be induced by growth of sales and incomes.

This explanation, known by the high-sounding name of "acceleration principle," induces Keynesian administrations to apply a great number of measures that aim at stimulating income. Wage increases, tax reductions and rebates for lower income earners, together with "expansionist" monetary policies, are to promote consumption, the moving force for full employment and economic growth.

The doctrine is as old as it is fallacious. It is built on the ancient myth that the stimulator and spender, i.e., government, is an entity outside and above the economic process, that it owns something that is not derived from its subjects, and that it can spend this mythical something for full employment and other purposes. In reply we must again and again repeat the truism that government can spend only what it takes away from tax-

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payers and inflation victims, and that any additional spending by government curtails the citizens' spending by its full amount.

Consequences of Inflation

The business cycle with its phases of boom and depression is the inevitable consequence of inflation and credit expansion. When the federal government suffers a budget deficit it may raise the needed money through borrowing the people's savings, or through the creation of new money and credit by the banking system under the direction of the Federal Reserve. To borrow and consume savings is to invite an immediate recession, for the Treasury now consumes the funds that were financing economic production. As interest rates rise, business must curtail its operations. Therefore, lest all private industries contract as federal spending expands, the federal government resorts to inflation and credit expansion.

Government thus resorts to a method of deficit financing that completely muddles the situation. That is, while government is consuming more resources and capital funds, interest rates do not rise, but actually decline on account of the creation of new money. Declining interest rates now misguide businessmen who embark upon expansion and modernization projects, and mislead them to participate in an economic boom that must soon run aground for lack of genuine savings. Business costs, especially in the capital goods industries, soar until production becomes unprofitable or even inflicts losses. At this point the decline sets in. Projects are cancelled, output is curtailed, and costs are reduced. In short, the depression that is caused by a falsification of interest rates, leading to structural maladjustments, is alleviated through readjustment and repair of the damage inflicted by the credit expansion.

Bigger and Better Booms

The Keynesians and their practitioners in government are loudly proclaiming that they have learned to cope with the cycle. Actually, they are not avoiding the cycle by refraining from deficit spending and inflation, they are merely "solving" the dilemma of stagnation and decline through ever-larger bursts of deficit spending and money creation. Every administration is desperately spending and inflating in order to kindle another boom. Then, after a while, the boom is followed by another recession that necessitates an even larger deficit and more inflation. Unfortunately, this merry-go-round, which characterizes the federal administrations

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from 1930 to date, has debilitated the U.S. dollar and made individual savings an important resource for federal deficit financing.

During the period of boom, capital and labor are attracted by the feverish conditions in the capital goods industries. Here employment tends to rise as labor moves from consumers' goods industries to the booming capital goods market. There may even be some unemployed workers who now find jobs under boom conditions, which may temporarily reduce the general rate of unemployment. But the boom passes by the millions of workers who are condemned to idleness by minimum wage legislation, labor union policies, and the temptations of compensation and food stamps.

When the fever finally gives way to the chills of recession, the capital goods industries undergo a painful contraction. Capital and labor are set free. They now return to the long-neglected consumers' goods industries from whence they came. In an unhampered labor market the readjustment would be brief and direct. But in a market that is obstructed by 65 weeks of generous unemployment compensation and many other benefits, the readjustment process must be slow and circuitous. Unemployment rises and stays high for long periods of time.

In boom and bust, goods prices rise as a result of the various injections of new money by the full-employment planners. During the boom, capital goods prices lead the way. During the depression when these retreat in contraction and readjustment, the prices of consumers' goods take the lead, which utterly confounds the Keynesians. The phenomenon of rising unemployment together with rising consumer prices painfully contradicts the acceleration principle and completely jumbles the Phillips Curve.

The phenomenon of rising unemployment together with rising consumer prices painfully contradicts the acceleration principle and completely jumbles the Phillips Curve.

Hedge Unemployment

The Keynesian commitment to expansionary policies is a commitment to inflation that does not promote full employment. It does not achieve the "miracle . . . of turning a stone into bread," but generates the business cycle with periods of high unemployment. Continued application of the Keynesian recipe must finally lead to the complete breakdown of the monetary system and to mass unemployment.

Rampant inflation destroys the capital markets that sustain economic production. The lenders

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who suffer staggering losses from currency depreciation are unable to grant new loans to finance business. And even if some loan funds should survive the destruction, lenders shy away from monetary contracts for any length of time. Business capital, especially long-term loan capital, becomes very scarce, which causes economic stagnation and decline. To salvage their shrinking wealth, capitalists learn to hedge for financial survival; they invest in durable goods that are expected to remain unaffected by the inflation and depreciation. They buy real estate, objects of art, gold, silver, jewelry, rare books, coins, stamps, and antique grandfather clocks.

Surely, this redirection of capital promotes the industries that provide the desired hedge objects. But it also causes other industries to contract. It creates employment opportunities in the former and releases labor in the latter. As the hedge industries are very capital-intensive, working with relatively little labor, and the contracting industries are rather labor-intensive with a great number of workers, the readjustment entails rising unemployment. Of course, the readjustment process is hampered by labor union rules, generous unemployment compensation, and ample food stamps.

Similarly, double-digit inflation causes businessmen to hedge for financial survival. They tend to invest their working capital in those real goods they know best, in inventory and capital equipment. Funds that were serving production for the market become fixed investments in durable goods that may escape the monetary depreciation. Economic output, especially for consumers, tends to decline, which raises goods prices and swells the unemployment rolls.

Deficits Consume Jobs

Both federal deficits and the inflation that follows, consume productive capital. The deficits of the U.S. government are consuming massive amounts of business capital that otherwise would produce economic goods, create jobs, and pay wages. During the decade of the 1950's, total U.S. government deficits amounted to a mere $17.7 billion. During the 60's, the total was only $56.9 billion. During the first half of the 1970's, deficits rose to $71.4 billion, and, as if they were following an exponential curve, in the second half of this decade, must be expected to exceed $200 billion.

The inflation itself is a powerful destroyer of productive capital. It taps the savings of many millions of thrifty individuals for government consumption and redistribution. It weakens the capital markets and misleads businessmen into costly management errors. It causes busi-

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nessmen to overstate their earnings, overpay their taxes, and consume their fictitious profits.

In the United States, government is attacking business capital from both sides: It is pressing continuously toward higher levels of consumption through spending schemes and extensive redistribution of wealth and income; and it is severely hampering economic production and capital formation through taxation and intervention. The "environmental" regulations alone are estimated to impose some $300 billion of cleanup costs on American industry during the 1970's. All such costs are "unproductive," meaning that the expenditures consume business capital without generating new production and income. They will never build factories, stores, offices, and many other facilities of production. And above all, they will not afford employment to the jobless millions.

In a stagnant economy that no longer permits capital formation and business growth, the institutional pressures for higher labor costs are painfully felt in the form of rising unemployment. The job situation may even get worse when the net amount of productive capital begins to shrink as a result of excess consumption and declining production—that is, when the amount of capital invested per worker begins to decline and wage rates must readjust to lower levels. In such a situation, which in the judgment of some economists is already upon us, the institutional pressures for higher labor wages and benefits—to which laborers have grown accustomed and believe themselves to be entitled economically and morally—would generate ever-higher rates of unemployment. If, at the same time, government should "stimulate" the sagging economy with easy money and credit, goods prices will soar alongside the unemployment rolls.

> The deficits of the U.S. government are consuming massive amounts of business capital that otherwise would produce economic goods, create jobs, and pay wages.

The Ultimate Folly: Disintegration Unemployment

The ultimate folly which government may inflict on its people is the imposition of price controls, which are people controls. When goods prices soar because budget deficits run wild, and monetary authorities aim to "stimulate," the very administration conducting such policies desperately reaches for the control brakes. But there is probably no other measure that so promptly and effectively disrupts economic pro-

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duction and weakens the currency as comprehensive price controls. And no other policy or disaster causes more unemployment more rapidly than the imposition of stringent controls over prices.

Price controls instantly paralyze the labor market, hamper economic production, encourage consumption, and create shortages that invite an even more coercive system of rationing, allocations and priorities. Obviously, where a central authority dictates all things, where millions of prices and wages are replaced by a single directive, chaos and darkness descend over economic life. Our splendid exchange system, with its magnificent division of labor, disintegrates and gives way to a primitive command system. The disintegration is accompanied by mass unemployment.

Even without price controls, rampant inflation causes such serious disarrangement of markets and disruption of production that both economic disorders—boom and depression—occur simultaneously. Consumers' goods industries tend to contract while capital goods industries that are producing the machines, equipment, and materials for business hedging, enjoy a feverish boom. But the labor market with all its institutional rigidities is unable to adjust to the rapid changes, and therefore suffers the strains of rising unemployment.

Moreover, the disintegration of the exchange system as a result of the failure of money, the medium of exchange, causes a general decline in real wages, which breeds widespread labor unrest. Individual productivity may fall, which boosts business costs. Labor unions react with militant demands and ugly strikes, which inflict losses on business and cause even more unemployment. With millions of idle workers searching for work, other millions are marching on picket lines in protest against the rampant inflation that is engulfing their jobs and livelihoods. Such are the symptoms of the finale of a currency that became a Keynesian stimulant and a medium for redistribution.

The capsized Keynesian ship is sinking. The property loss is staggering, but the crew is safe. Experience, which is the best of teachers, comes at a dreadfully high price. It teaches slowly, and at the cost of mistakes. The important thing is to listen and to learn.

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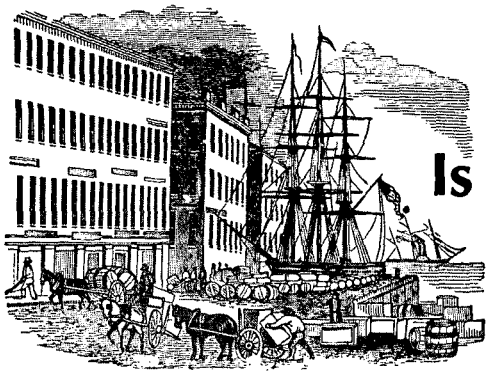

Is There an Unfavorable Balance of Trade?

Lawrence W. Reed

ECONOMISTS who believe in the market economy seldom have kind words for the ideas of the late John Maynard Keynes, and understandably so. Keynes, who did so much to make inflation a popular policy worldwide, was no friend of the free market. Scattered here and there in his voluminous writings, however, are passages with which free market advocates can wholeheartedly agree. This one in particular deserves to be carved in stone and enshrined forever:

> The ideas of the economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.[1]

Today it seems that defunct economists and academic scribblers are making a dramatic comeback. Economics has become burdened with foolish notions that were once thought to be discredited. Some of these notions are put forward as if they are imaginative, new discov-

Mr. Reed of Beaver Falls, Pennsylvania, is a recent graduate of Grove City College, now studying for an advanced degree in American history with emphasis on economics.

[1]John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace and World, 1964), p. 383.

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eries; too many are designed to turn the clock back to the days before free trade unleashed the creative energies which have built the prosperity of Western civilization.

Twin Obstructions

A leading illustration of this point involves the twin concepts of "balance of trade" and "balance of payments." These two concepts, which sound innocuous in name, often form the basis for erecting barriers to foreign goods. With the demand for "protectionist" legislation on the rise throughout the world, we can expect to hear more about them in coming months.

How are these terms defined? The "balance of trade" is considered to be the difference between the money value of a country's merchandise imports and the money value of its merchandise exports. The "balance of payments" is regarded as a broader measure of economic activities between nations because it includes merchandise and such "invisible" imports and exports as credit transactions and government payments abroad (for foreign aid or to support military forces, for example).

The definitions are not as important, though, as the actual purpose behind them. Both "balance of trade" and "balance of payments" concepts attempt to fracture the process we know as "trade" so that the resulting fragments can be designated either "good" or "bad." In this way, "trade" is deemed to be "good" if it meets certain statistical criteria and "bad" if it does not. Such value judgments, moreover, are reached independently of the individuals who are doing the actual trading.

The Mercantilists

The first economists to develop this analysis of trade were the mercantilists, so it is certainly not new with today's theoreticians. Thomas Mun, a leading mercantilist scholar of the seventeenth century, argued that England would prosper in foreign trade if only she would strive for a "favorable" balance:

> The ordinary means, therefore, to increase our wealth and treasure is by Forraign Trade wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value. For suppose that when this Kingdom is plentifully served with Cloth, Lead, Tin, Iron, Fish and other native commodities, we doe yearly export the over-surplus to forraign Countreys to the value of twenty two hundred thousand pounds, by which means we are enabled beyond the Seas to buy and bring in forraign wares for our use and Consumptions, to the value of twenty hundred thousand pounds; By this order duly kept in our trading, we may rest assured that the Kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in

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so much Treasure, because that part of stock which is not returned to us in wares must necessarily be brought home in treasure. . . .[2]

Mun and the mercantilists believed that a nation must never buy from foreigners more than it sells to them. If such an "unfavorable" balance occurred, the nation had to pay the difference in gold, the internationally-accepted medium of payment. To prevent that, the government was supposed to actively promote an excess of exports over imports. Mercantilists were so convinced that specie itself constituted the wealth of the nation that they closed their borders to trade and often waged war in order to protect and accumulate vast supplies of gold. That a nation should strive for a "favorable" balance of trade (more exports than imports) is the economic heritage of the sixteenth, seventeenth, and eighteenth centuries.

Mercantilist reasoning did not die with the mercantilists, however. According to the U.S. Department of Commerce, imports surpassed exports for eight consecutive months through January 1977. This situation, disparagingly labeled a trade "deficit," is provoking concern among many orthodox economists. Already, demands are increasing for restricting imports to redress the "imbalance." Japan is singled out for particular scorn, because she sold $5 billion more in goods to the U.S. than the U.S. sold to her in 1976. Each month that government statistics indicate an "unfavorable" balance seems to push America closer to a neo-mercantilist policy of protectionism and trade wars.

Adam Smith and Bastiat

It was Adam Smith who first attacked the notion that exports are good and imports are bad. He postulated a "harmony of interests" in trade, by which both parties to an exchange benefit. With the exception of obvious fraudulent practices, which are minimal in number and a responsibility of the courts, there can be nothing "unfavorable" about voluntary trade *from the point of view of the individuals doing the trading,* otherwise those individuals would not have engaged in it.

This principle is readily visible when trade involves two parties *within* a country; it somehow becomes confused if an invisible political barrier separates the two. Introduce more than one currency and the principle becomes all but totally obscured in the welter of economic fallacy. Mercantilists of

[2] "England's Treasure by Forraign Trade," 1664 by Thomas Mun in John R. McCulloch (ed.), *Early English Tracts on Commerce* (Norwich: Jarrold and Sons, Ltd., 1952), pp. 125-26.

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yesteryear and like-minded economists of today face an impossible dilemma posed by this question: Since each and every trade is "favorable" to the individual traders, how is it possible that these transactions can be totalled up to produce something "unfavorable"?

Frederic Bastiat, the nineteenth-century French economist and philosopher who exploded myths with stunning clarity, once addressed himself to this very point. His analysis remains to this day one of the best critiques of the "unfavorable balance" concept:

M.T. despatched a ship from Le Havre to the United States, with a cargo of French goods, chiefly those known as *specialties of Parisian fashion*, totalling 200,000 francs. This was the amount declared at the customhouse. When the cargo arrived in New Orleans, it had to pay a shipping charge of ten per cent and a tariff of thirty per cent, which brought the total to 280,000 francs. It was sold at a profit of twenty per cent, or 40,000 francs, for a total price of 320,000 francs, which the consignee converted into cotton. This cotton had to pay ten per cent more, for transportation, insurance, commissions, etc.; so that, when the cargo arrived at Le Havre, its cost amounted to 352,000 francs, and that was the figure entered into the accounts of the customhouse. Finally, M.T. again realized, on this return trip, twenty per cent profit, or 70,400 francs; in other words, the cotton sold for 422,400 francs.

If M. Lestiboudois requires it, I shall send him some figures taken from the books of M.T. There he will see, *in the credit column* of the profit-and-loss account—that is to say, as profit—two entries, one for 40,000 francs and the other for 70,400 francs; and M.T. is fully satisfied that in this respect his accounting is not in error.

And yet, what do the figures in the account books of the customhouse tell M. Lestiboudois regarding this transaction? They tell him that France has exported 200,000 francs, and that it has imported 352,000 francs; whence the honorable deputy concludes "*that it has consumed and dissipated the proceeds of previous savings, that it has impoverished and is on the way to ruining itself, that it has given away 152,000 francs of its capital to foreigners.*"

Some time afterward, M.T. despatched another ship with a similar cargo, worth 200,000 francs, of products of our domestic industry. But the unfortunate vessel sank while leaving the harbor, and there was nothing else for M.T. to do but to inscribe in his books two brief entries phrased thus:

Sundry goods due to X: 200,000 francs for the purchase of various commodities carried by ship N.

Profits and losses due to sundry goods: 200,000 francs *for ultimate total loss* of the cargo.

Meanwhile, the customhouse on its part was entering 200,000 francs into its *export* ledger; and as it will never have anything to enter into the opposite *import* ledger on this account, it follows that M. Lestiboudois and the Chamber will view this shipwreck *as a clear net profit* of 200,000 francs for France.

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There is still a further conclusion to be drawn from all this, namely, that, according to the theory of the balance of trade, France has a quite simple means of doubling her capital at any moment. It suffices merely to pass its products through the customhouse, and then throw them into the sea. In that case the exports will equal the amount of her capital; imports will be nonexistent and even impossible, and we shall gain all that the ocean has swallowed up.[3]

In a parting shot, Bastiat again applies *reductio ad absurdum* logic to the argument. He declares:

Assume, if it amuses you, that foreigners flood our shores with all kinds of useful goods, without asking anything from us; even if our imports are *infinite* and our exports *nothing,* I defy you to prove to me that we should be the poorer for it.[4]

A Two-Way Street

It ought to be obvious that trade is a two-way street. In a free market, where trade is a voluntary, desired, and spontaneous feature of human action, there is a "perfect balance." Professor W.M. Curtiss demonstrates that trade between people of different nations is no different in this respect from trade between people of the same nation:

Suppose you sell a bushel of apples for two dollars. You get two dollars, which you would rather have than the apples; the buyer gets the apples, which he would rather have than the two dollars. A perfect balance!

True enough, our exporters may sell goods to English buyers and get sterling exchange. They may spend this money in France or Germany rather than in England, so that the flow of goods is not directly between England and America. But the same might be true in the trade of apples for dollars. With your two dollars, you probably will buy something from a third party rather than from the man who bought your apples.[5]

The mercantilists, we have noted, viewed the export of money and bullion as inherently evil. Exports were to be encouraged and imports discouraged by means of tariffs and quotas in order for money to be "kept in" the country. Similar cries are heard today. Many economists and government officials view with alarm any net outflow of money to foreigners.

In the context of individuals engaged in free trade, such alarm is misplaced if directed at the market. Often a net outflow of funds is a symptom of the government's own policy of inflation which erodes public confidence in the dollar. Pro-

[3]Frederic Bastiat, *Economic Sophisms* (Irvington, New York: Foundation for Economic Education, 1968), pp. 53-54.

[4]*Ibid.*, p. 55.

[5]W.M. Curtiss, *The Tariff Idea* (Irvington, New York: Foundation for Economic Education, 1962), p. 36.

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fessor Ludwig von Mises believed that in any case, this occurrence

> . . . is not the product of an unhappy concatenation of circumstances that befalls a nation like an act of God. It is the result of the fact that the residents of the country concerned are intent upon reducing the amount of money held and upon buying goods instead.[6]

Furthermore, Mises contended, it is not correct to assume that government must take measures to prevent a total loss of the nation's money by such an "unfavorable balance." *Quoting from Professor* Mises again:

> No government interference is needed to prevent the residents of New York from spending all their money in dealings with the other forty-nine states of the Union. As long as any American attaches any weight to the keeping of cash, he will spontaneously take charge of the matter . . . But if no American were interested in keeping any cash holding, no government measure concerning foreign trade and the settlement of international payments could prevent an outflow of America's total monetary stock.[7]

Keynes was correct when he said that ideas, right or wrong, rule the world. The undue concern over the "balance of trade" and the "balance of payments" will quite probably produce wider restrictions on international trade. If that occurs, our government's policy-makers will be treading blindly in the footsteps of the defunct economists and academic scribblers of mercantilist times.

[6]Ludwig von Mises, *Human Action* (Chicago: Henry Regnery Co., 1966), p. 452.

[7]*Ibid.*

IDEAS ON LIBERTY

Free Trade

IF a person advocates free trade domestically, he cannot logically advocate protective tariffs and other similar measures that prevent goods and services from moving freely across national boundaries. It is simply not true that a nation and a people are made more prosperous by compelling themselves to pay two and three times as much as they need to pay for the goods and services they want. It just does not make sense to improve the means of moving goods from one nation to another, and then to cancel out the savings in transportation costs by passing laws to hamper the resulting trade. I am convinced that such contradictions arise more from lack of understanding than from evil intentions.

DEAN RUSSELL,
"Free Trade: Domestic and Foreign"

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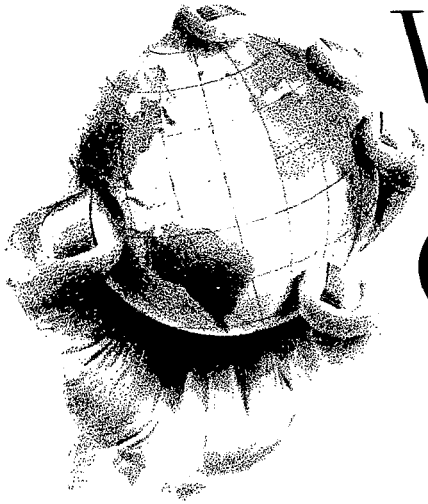

World in the Grip of an Idea

Clarence B. Carson

7. Russia: The Reign of Terror

TERROR is Soviet Communism's substitute for law. It is not an accident that it is a substitute; it is not a whim of those who rule; it does not arise simply from the love of power. Terror is as essential to communism as oxygen is to fire. Its essentiality, its necessity, arises from the nature of things. The necessity for it is, if you will, ontological and metaphysical, lying at the core of how things are and the way they can be here on this earth. (*How much* terror is necessary is an entirely different matter; it is, in any case, a question for tyrants to debate.)

Karl Marx professed to believe that when private property was abolished the state would wither away. The available evidence indicates that Marx erred, that far from disappearing the state expands and grows luxuriously until it occupies every nook and cranny of the life of a people when private property is abolished. Marx's insight was off the mark. It is not the state which withers away when pro-

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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perty is abolished, but law, and liberty, and private rights, and justice.

True, theorists of communism thought that the need for law would disappear as the revolution moved to its fruition. This would, however, occur simultaneously with the withering away of the state, or, at least, as a part of the same process. Law, according to Marxism, is a product of the class struggle. It is the means by which the ruling class imposes its will on all the rest. The state is the device which effects the imposition. The Bolshevik Revolution did indeed sunder ancient relationships between the state (and the government within it), property, law, and private rights. It sundered them sufficiently to reveal some connections which could have been known theretofore mainly by speculation. The Soviet experience should serve as a rich mine for political theory, but it can only do so by being separated from Marxian theory.

Law and Property Rights

The major conclusion to be drawn from the Soviet experience is this: Law is neither essential to nor derived from the power of the state. On the contrary, law is an impediment to the exercise of governmental power. Government operates essentially by the use of force. The state is the territory within which a government has a monopoly of the use of force, at least within its jurisdiction. Law regularizes and *limits* the use of force by government. It limits it by prescribing how force shall be used, to what extent, and under what conditions. Law is no more necessary to governments than handcuffs would be to a boxer.

Law arises from and depends on property rights. All rights are extensions of property rights. This has been the case historically. Freedom of speech, of press, and of religion, for example, were only established after the foundation had been laid in rights to private property. This course of events was not accidental; it was essential. The law can protect only what it can define. Freedom of speech is a property right to one's utterances, depending for its use upon a place (property) from which to speak, and upon its defense for the means by which to enter into an adversary relationship with those (including government) who would deny it. Abolish private property, and you abolish all rights and liberties with it. Law can no more survive without these rights in property than can a building be suspended from sky hooks. Neither has any foundation.

The Alternative Is Terror

Government requires neither private property nor law in order to function. They are inhibitions on its

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exercise of force. There is for government an alternative to law; it is terror. Government must act by law or by terror, or a combination of these two means. In the absence of private property and its corollary, law, government must act by terror. The exercise of force without the restraint of law is terror. No better definition can be given, and none is needed. It does not become terror because of the horrible character of the acts; every use of force is terroristic because it is arbitrary, unpredictable, and has no certain cause or explanation. None may know when force will be applied or when it will be halted, for there are no enforceable restraints.

The Soviet Union is a lawless nation at bottom. There is, of course, a facade of law. There are rules for the bureaucracy; there are statutes to apply to the populace; there is a constitution, have been several consititutions; and there is a system of courts. But these are all facade, because those who rule are unbound by them. They are unbound because the Russian people have no means for making them observe the law. They have no means because they have no private property, or so little that it is grossly insufficient for the task. They have no property because of communism. The lawlessness and terror derive from communism; they are its inevitable corollary. The extent of the terror depends upon the particular ruler; the necessity for terror, per se, arises from communism.

Stages of Soviet Rule

The history of the Soviet Union can be divided into episodes according to the degree, extent, and quality of terror by which it has been ruled. The first episode was that of War Communism from 1918 into 1921, a period of extensive terror and Draconian measures in behalf of revolutionary activity and the defeat of the White forces. The next episode was that of the New Economic Policy (NEP) which lasted from about 1921 to 1928. There is no doubt that the terror abated during this period. Much private economic activity was permitted; commercial laws were enacted; and some protections to private property were enforced.

The next episode properly encompasses the whole period of the personal rule of Joseph Stalin, 1928-1953, a period of 25 years of the most extensive and intensive reign of terror in all of history. The Stalinist terror can itself be broken into episodes—forced collectivization, forced industrialization, the Great Purge, and so on—, but this would only involve distinctions based on the character of the victims not upon the extent of the terror.

Following Stalin's death, par-

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ticularly during Nikita Khrushchev's middle period, so to speak, 1956-early 1960's, there was a dramatic abatement of the terror, a widescale freeing of political prisoners, and even some revelation of the extent of Stalin's terror. This does not mean Khrushchev's reign was lawful, only less terror-filled. The indications are that Leonid Brezhnev has restored much of the secretive atmosphere of Stalin as well as a modified terror.

Always, Terror

One thing should be made clear: Every Communist regime in the Soviet Union has employed terror. All have used the secret police who were an instrument of the rule of terror, whose names have been changed over the years but not their character. All have been lawless in that none has been prevented from acting because it was against the law. No single instance has come to light of a member of the secret police being prosecuted for terrorist acts against the citizenry. Khrushchev reported some of the crimes of Stalin, but those who conspired with Stalin were not brought to justice.

The purpose of the terror in the Soviet Union is not primarily to maintain what in the United States is sometimes called law and order. This helps to explain the great variations in the degree, extent, and quality of the terror. If it were aimed at punishing or suppressing what is ordinarily called crime, there would be little reason to expect any great variation. After all, crimes against persons and property may increase or diminish over the years, but they do not ordinarily change much from one ruler to the next. In any case, ordinary crime—crimes against persons, such as assault, and theft of personal property—does not greatly excite the Soviet authorities. Most property belongs to the state, and theft or abuse of it is a political crime. "Political" crime is that against which the terror is waged. There is abundant testimony, even, that ordinary criminals are permitted, and probably intentionally used, to terrorize the political prisoners in prisons and slave labor camps.

An Ideological Weapon

Terror, then, is an ideological weapon. It is the main device used in the attempt to impose communism on the Russian people. A most important conclusion follows from this: The extent of the terror is in direct proportion to the effort being made to impose communism. The facts tend to support this conclusion. In the 1920's, under the New Economic Policy, there was an abatement of the terror. It is

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generally understood that the New Economic Policy was a conscious retreat, albeit temporary, from socialism or communism. Such restoration of private enterprise in trade, farming, and small manufactures as was made was admittedly a *step backward*.

Then, in 1928 Stalin began the "Great Leap Forward" with the initiation of his first Five Year Plan. Forced industrialization and forced collectivization were undertaken on an unprecedented scale. This was accompanied by such terrorism as had hardly been experienced before. Eugene Lyons has summarized the impact of this undertaking in the following manner:

> The plan was launched like a war of conquest directed against the whole population. . . .
>
> In a mystic transport of "historic mission," the regime doomed millions to extinction, tens of millions to thinly disguised slavery, the whole nation to incredible suffering. Upon the alleged "completion" and "fulfillment" of the plan, half the country was caught in a fearful famine, the other half was on short rations, agriculture was wrecked, the forced-labor population in camps was nearing the ten-million mark. . . .[1]

This particular interlude had many dimensions of terror, some of which would not be repeated, at least not on this scale. The most horrendous persecution was of the kulaks (small farmers) and NEPmen (those engaged in private enterprise during the period of the New Economic Policy). These were disfranchised, deprived of their possessions, and, as Lyons says, "denied food rations and the right to schooling, driven from their homes, employed only as unskilled . . . labor, or simply left to beg and starve and die."[2] This was clearly ideological, an attempt to wipe out all vestiges of private enterprise. Clearly, too, the efforts at industrialization and collectivization were in accord with communist ideology. (The debate about whether Stalin's methods were the best way to proceed are of interest only to those who believe that it can and ought somehow to be done.) The terror mounted as the attempt to impose the ideology was pursued.

Changes Since Stalin

It is important to grasp this point, because since the De-Stalinization of the late 1950's there has been a widespread effort to treat the Stalin terror as an aberration. Stalin was not, according to this view, a good communist. He reveled in the Personality Cult built around him, and terror was his device for concentration of all power in his hands.

Now it may well be that Stalin contrived a personality cult, and there can be no doubt that he consolidated all power in his hands, but

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it does not follow that he was not a good communist. On the contrary, if the analysis and facts here presented are accepted, Stalin stands out as the best communist ever to emerge in the Soviet Union. He applied terror more rigorously and thoroughly than has ever been done, before or since. He did so in accord with the logic of communist ideology. His crimes were not an aberration from communism; they were the product of his attempt to impose it.

The ideological purpose of terror is to produce conformity with the Communist Party line. More broadly, the purpose is to bring a whole people under the sway of the ideology, to make them instruments to be used in a common concerted effort. If this is to be accomplished, all dissent must be wiped out, and all individual resistance must be crushed. "You cannot make an omelet without breaking eggs," Khrushchev said. Terror is the communist way to break eggs, and Stalin was its supreme exemplar.

At any rate, by the early 1930's the terror began to fall into a pattern. It would not be correct to say that it was regularized, for that would suggest that there were rules which limited and made it predictable. It was never predictable for it was too arbitrary for that. Nor was it ever ritualized. Amongst civilized peoples many acts are ritualized, and especially those that have to do with life and death and detention. Communism discourages all ritual and tends to leave all acts as blunt and unembellished as possible. But there was a pattern to the terror.

First, the Arrest

Ordinarily, the first step is the arrest. It can happen at any time and any place. Alexander Dolgun, an American who spent about eight years in Soviet prisons and camps, was walking down a street in Moscow in the middle of the day when he was arrested. For others it came at home, in the middle of the night or whenever. Mothers of small children might be taken away with no provision made for looking after the children. There might be a search of the premises for papers or other incriminating evidence. Most likely, no charge would be made at the time of the arrest. The person might well be told that he was only being taken in for a little talk or questioning. The arresting officers would be men in plain clothes, members of the NKVD, MVD, MGB, KGB, or whatever name the secret police would be using at the time.

The second step is to be taken to a prison in the vicinity of where one is arrested. The terror begins there, if it had not already begun. This is no ordinary prison, if there is such a thing. It is a place of interrogation,

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and the facilities are designed to bring maximum psychological and physical pressure to break the prisoner and make him confess. The terror may begin in this prison, but it does not end there, unless it ends in death. The terror settles upon the prisoner, as it were, rending his soul and marking him for life. (Not everyone is as sensitive as Alexsandr Solzhenitsyn, but witness the Herculean effort he has made to tell the story to the world, in fictionalized accounts and in histories.)

Imprisonment

Jail is bad enough in the best of times and places. The initial experience is one of helplessness, of loss of control over one's affairs, of being at the mercy of his captors. There are all sorts of things one knows he has to do, and yet his life is stopped, thrown into limbo, as it were. One may be buoyed at first by outraged innocence and the delusion that it is all a mistake. But in a Soviet prison all these must yield to something else, the necessity of clinging to sanity and the relics of selfness. All imprisonment involves loss of status and loss of respect of one's former fellows. Yes, even in the Soviet Union, the thought will not down that one must have done something to incur the wrath of the authorities, though for those who know better among endangered acquaintances or family there may be a sense of outrage that the person was so stupid as to get himself arrested.

As soon as the fact of one's being arrested and imprisoned becomes known, the terror, or fear, spreads to his family and acquaintances. The odds have now increased that they will suffer a similar fate. Alexander Dolgun's mother was arrested:

> They had arrested her in 1950. For months she had pestered the MGB (it was still MGB then) for news of me. At first they told her I had been shot as a spy. She had a breakdown. Shortly after she recovered she got my triangle letter from Kuibyshev, in which I asked whether the American Embassy had given her my personal belongings. She went to the embassy to demand help. At the gates the MGB arrested her. She was still emotionally very fragile. They beat her with rubber truncheons, trying to get her to incriminate me. They pushed needles under her fingernails. Now her nails would never be straight again. After a very short period of this she went quite insane and, without sentencing her, they put her in a prison insane asylum in Ryazan.[3]

When she was released from the asylum, she could get no help from the authorities to get a place to live, reclaim her property or maintain herself because she had not been sentenced. Dolgun's father, too, had been imprisoned. Perhaps saddest of all, after Alexander Dolgun had been released and was living

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with his mother, the state of her mind was such that at times she believed him to be in the hire of the secret police and informing on her. There is no end to the terror.

The purpose of the initial imprisonment and interrogation is to extract a *satisfactory* confession from the prisoner. He will be interrogated for as short or as long a time as is needed to get the confession, or goes insane or dies from the tortures inflicted upon him. The usual method of getting a prisoner to confess is to put him on the conveyor, as it is called. The conveyor is a system of extended interrogation carried on by relays of interrogators, usually at night, broken by interludes of "rest" during the day in which the prisoner is not allowed to lie down or sleep. One careful student of the process describes it this way:

> Interrogation usually took place at night and with the accused just roused—often only fifteen minutes after going to sleep. The glaring lights at the interrogation had a disorienting effect. There was a continual emphasis on the absolute powerlessness of the victim. The interrogators—or so it usually seemed—could go on indefinitely.

As one prisoner described the result:

> After two or three weeks, I was in a semi-conscious state. After fifty or sixty interrogations with cold and hunger and almost no sleep, a man becomes like an automaton—his eyes are bright, his legs swollen, his hands trembling. In this state he is often even convinced he is guilty.[4]

Obtaining Confession

Most men, and women, probably crumble within a few days and provide the desired confession. If they do not, or cannot (for it is by no means easy to determine what to confess), they may be subjected to other tortures as well as or in addition to that of the conveyor. The tortures may be simple or exquisite; an interrogator may suddenly jump up and begin to beat the prisoner with his fists. They may be as simple as feeding a prisoner salt fish and allowing him no water for a day, or as exquisite as placing him in a room with water covering the floor and no place to sit. A present-day Soviet writer tells this poignant story of the torture of a woman (in a book that had to be published outside the Soviet Union):

> Nestor Lakoba, poisoned by Beria and posthumously declared an "enemy of the people," left a wife who would not sign any false statements about him. A young and beautiful woman, rumored to be a Georgian princess, she was arrested and put in the Tbilisi prison soon after her husband's death. Nutsa Gogoberidze, the wife of Levan Gogoberidze, who shared a cell with Lakoba's wife, tells how this silent and calm woman

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was taken away every evening and was dragged back to the cell, bloody and unconscious. The women cried, asked for a doctor and revived her. When she came to, she told how they demanded that she sign an essay on the subject "How Lakoba sold Abkhazia to Turkey." Her reply was brief: "I will not defame the memory of my husband." She stood fast even when faced with the ultimate torture: her fourteen-year old son was shoved crying toward his mother, and she was told he would be killed if she did not sign. (And this threat . . . was carried out.) But even then Lakoba's wife would not defame her husband. Finally, after a night of torture, she died in her cell.[5]

Most people are not, of course, cut out of such an heroic mold, and the interrogator was not often denied the confession he sought.

Confess What?

What would be a satisfactory confession? Anyone innocent of knowledge of the Soviet secret police, and their masters, might suppose that what was wanted was a confession in accord with the facts. But this was usually unnecessary and unwanted. The aim of the interrogators was not facts at all in the accepted sense of something that has happened and can be verified by independent data. Facts belong to the real world of happenings and events. What they wanted belongs to a posited, an imaginary, a mentally constructed world in accord with communist ideology and the Party line.

The most grotesque facade of all in Soviet Communism was the facade erected from the tissue of these confessions. It was a facade compounded of assassination plots, of foreign controlled spy networks, of domestic conspiracies, of industrial sabotage, of agricultural espionage, of fascist traitors, of "right wing deviationists," of "left wing deviationists," of Trotskyists, and so on. The picture that emerges from the confessions is a massive intertwined series of conspiracies and plots to undermine, thwart, and destroy Communism in Russia. Millions of people were supposed to be involved, and many nations around the world were aiding and abetting it. All other conspiracy theories pale beside this one, for none other can produce millions of confessions to "prove" its case.

A Documented Rationale for Soviet Actions

This facade of confessions constituted a huge "documented" rationale for Soviet actions and failures. The terror had the broad purpose of subduing the people and making them conform to the will of their rulers as well as the narrower purpose of producing confessions. But the confessions, we may believe, had a different purpose—to justify the regime to itself and to

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such others as were apprized of the "evidence." Was there a crop failure in some province? The explanation was at hand: saboteurs had provided rotten seed or the fertilizer had been tampered with. Did a factory fail to meet its quota? Saboteurs must have been at work there. In the Show Trials of the 1930's a man named Pyatakov made this confession:

> In the Ukraine the work was carried on mainly in the coke industry by Loginov and a group of persons connected with him. Their work, in the main, consisted of starting coke ovens which were not really ready for operations, and of holding up the construction of very valuable and very important parts of the coke and chemical industry. . . .
>
> The wrecking activities in the last period assumed new forms. Despite the fact that, after a delay of two or three years, the plant began to enter on its operation stage Maryasin created intolerable conditions, fomented intrigues, and in a word everything to obstruct operation.[6]

Even the terror itself might be "justified" by these conspiracies and plots. The government, it was made to appear, was vigilantly capturing and punishing its enemies. Indeed, the secret police could provide signed confessions of any sort of wrongdoing which the rulers ordered. The number of people who could be implicated was limited only by the number of secret policemen who could be assigned to getting confessions.

Once a confession had been extracted, one along the desired lines, the next step was to sentence the prisoner. He could be sentenced in one of two ways: after a trial or by the "organs," i.e., the secret police. So far as the question of guilt or innocence was concerned, it did not matter which way was taken. In fact, there was never any question of guilt or innocence once a person had been arrested. He was guilty. The only question was, of what?

The Farce of a Trial

The trials that were held were farcical. Their lack of dignity was apparent during the Moscow Show Trials when Andrei Vyshinsky, the Chief Prosecutor, would howl to the court, "Shoot the dirty dog," or words to that effect. If a defense lawyer appeared, his effectiveness was sullied by the necessity for him to show his loyalty to the government. Even the sentences must have been prepared in advance of the trial. Robert Conquest points out that the trial of Evgenia Ginzburg took seven minutes. "The Court returned in two minutes with a 'verdict' which she estimates must have taken twenty minutes to type."[7]

The only real question to be answered by the sentencing was whether the prisoner was to be shot

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or sent for a number of years to a forced labor camp. True, the length of sentences varied, but whether it was for five, ten, or twenty-five years mattered less than it should have, for the "organs" could add an additional sentence when the first was completed if they saw fit. An important point to be grasped here is that once a prisoner had made, signed, and, if he was to be publicly tried, given, his confession, his purpose had been served. He became a nonperson, a thing, to be disposed of in whatever way the authorities might decide.

If he was to be shot, the sentence was usually carried out summarily. He was, according to lore, escorted to some dungeon room by secret police and shot in the back of the neck. No ceremony was involved; it was economical and effective. The price was the cost of a bullet, and a well-placed single shot severs the spinal column at the neck, bringing an end to sensation and probably instant death. Torture would have been superfluous at this point, since a confession had already been obtained, so the prisoner was simply dispatched in the most expeditious way.

Forced Labor Camps

Those send to forced labor camps were almost certainly sentenced to a fate worse than death. It might be more accurate to say that in most cases they were sentenced to a fate worse than as well as death. The vast majority died, according to such testimony as we have, en route to or in the camps. What could happen en route to a camp was vividly told by a Pole, Andrey A. Stotski, who was a Soviet prisoner during World War II. There were 1400 prisoners when they set out on their journey to the far frozen north. A long portion of the journey was in the hold of a barge. They were fed, when and as they were, by bread and soup lowered into the hold on hooks. These same hooks were used to lift those who died to the topside where they could be dumped into the sea. Let him take up the account:

> The deaths were so frequent by this time that the guards left the hooks within our reach, so that all we had to do was fasten them into the body and jerk the ropes hard. Among the last victims was one from our number—one of the White Ruthenians. From our memories of a life that was now an eternity away, we recalled the prayers for the dead and commended to God this soul who had surely gone to Him. How we envied this man whose troubles were now over. And yet none of us could bring our will to the point of suicide. No, death would have to come when God pleased.[8]

Seven hundred twenty-seven of the 1400 who had begun the journey survived this voyage. They then began the walk to the mines. On the

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way, they stopped for a while in a barracks, some fifty of their number were unable to continue the journey. "Before we were well away," he says, "the sound of pistol shots, at deliberately measured brief intervals, reached us."[9] They had been shot. About 400 eventually reached the camp.

The transfer from prison to forced labor camp was from torture to torment. There were at least two dimensions to this torment. One was psychological, and, if possible, it was the worst because of its impact on the human spirit.

The necessary environment to human dignity, even to humanness, is the sense that the individual has worth, that life has meaning, that each of us is important. The graces of culture and the outworks of civilization combine to support the belief that each individual is of great worth. The newborn baby is surrounded by attendants; the father has waited anxiously for the birth; relatives are eager to know its sex, weight, height, and who it looks like. The infant is given a name, staking out its individuality and uniqueness, as it were. Family and friends tend to provide the necessary warmth for nurturing human dignity. When a child becomes a man, he usually attains additional support from his job or position for his status as a valuable person. Even in death, the importance of the individual is celebrated by the commemorative services: the assembly of friends and loved ones, the expressions of grief and condolences, the rituals of burial, and the marking of the spot where the body has been placed. All this, of course, helps to reassure the living of the worth of the individual.

Stripped of Dignity

The forced labor camps stripped away every remnant of support to human dignity, except such as the most resolute could store in their hearts. "Life is meaningless," the forced labor camps seemed to say, "An individual is of no account." Solzhenitsyn has called the camps "Our Sewage Disposal Systems." This human garbage, these pitiful human beings, squeezed dry by torture and confession, were shipped off to remote areas to remove them from the sight and smell of others who were, relatively, alive and free. Everything in the camps confirmed that the prisoners were garbage: the language of the guards, the tattered rags the prisoners wore, the absence of amenities, and the cheapness of life. Tales abound of prisoners being shot merely because they stepped out of line in a formation or could not keep up.

Here is a story that reveals the assault on life in the camps. A prisoner made a dash for freedom. Other prisoners wanted to run after

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him and persuade him to return, but the guards would not permit it. Then, a guard by the name of Vanya took off across the ice and snow in a sleigh pulled by seven dogs in an effort to capture the man. The prisoner did not last long, for he was emaciated, and he had fallen to the ground by the time Vanya reached him. He was tied to the sled and dragged back to camp. Though he was horribly torn and bleeding, he was still alive. Vanya unleashed a vicious dog named Nora, expecting that she would tear at and destroy the man:

> Nora rose and slowly and cautiously approached the wretch on the ground, while all of us held our breath. The beast sniffed all around him and then opened wide her terrible mouth, and with her long, rough tongue began to lick Sasha's bleeding body. Finally she lay down by the remains of the man, pushing up close to him as if to protect him from the cold.
>
> Vanya cursed and went off without a word. Somebody among the prisoners began to sob. Nora pushed still closer to what had once been a man.[10]

Brutes, of course, are incapable of evil, for they know no such distinctions. Man, however, is, and the greatest evil is to attempt to deprive life of its meaning.

In these circumstances, men grasp for something that will supply meaning. The Reverend Richard Wurmbrand has told in one of his books how men greedily gathered around anyone who could remember and quote Scriptures, for they were indeed "Wonderful Words of Life." Alexander Dolgun relates how he survived in a cell dominated by regular criminals—the most brutal of all—by his ability to recall the plots to movies. We can surmise that what was of such importance to stories, aside from their value as entertainment, was that one could glean from them some glimmer of life with meaning.

A Polish woman prisoner in a Soviet camp tells how she was approached one day by one of the most vicious and cruel girls in the camp. This conversation ensued:

> "Listen, you Polish lady, now that we are alone, tell me—" she hesitated, looking around to see that we were really alone. "I saw you, and I know you pray. Tell me, is there a God?"
>
> My grip relaxed on the bucket. [She had been prepared to defend herself.]
>
> "There is."
>
> "How do you know?"
>
> "Because I pray every day and God does take care of me. . . ."
>
> "Tell me," she began again. "Tell me, what is it like in your country? . . . Is life in your country different from ours here? Is it true that people can really enjoy life there?"
>
> "It is true, Katiushka," and I described to her what life was like in Poland. [This was Pre-Communist Poland.]
>
> "You see," she sighed wearily when I

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stopped speaking, "I, too, would so like to have enjoyed life—to enjoy life!"[11]

The other source of torment in the camps was the work and accompanying hunger and debilitation. The economy of the forced labor camps was a grotesque parody of the dismal science, economics, as conceived by Malthus and Ricardo and revised by Marx. The natural price of labor, Ricardo had said, is the cost of subsistence. These prison camps went much further: they attempted to squeeze the maximum "surplus value" from these wretches by denying the necessities for subsistence to all except those who could meet the most unrealistic quotas of production. Thus, men endured cold, hunger, disease, lack of meaning, and faced eventual death in fruitless efforts to meet quotas. In some occupations, such as logging in the far frozen north, death came to most workers rather quickly. Those who survived the camps were apt to do so because they managed somehow to get the easiest jobs.

The Value of Private Property

There is much to be learned from the experiences of men in such extreme conditions. One is the great value of private property. Prisoners had no private property, in the sense that the authorities could be depended on to protect it, but they did have a few pitiful possessions. These they treated as private property and protected by whatever means they could. Solzhenitsyn describes the watch over possessions in this way:

> . . . In the evening, when you lay down on the naked panel, you could take off your shoes. But take into consideration that your shoes would be swiped. Better sleep with shoes on. Better not scatter your clothes about either—they'd swipe them too. On going out to work in the morning you must not leave anything in the barracks; whatever the thieves did not bother to take the jailers would, announcing, "*It's forbidden*!" In the morning you would go out to work just as nomads depart from a camp site, leaving it even cleaner. . . .
>
> But you couldn't cart anything off to work with you either. You would gather up your chattels in the morning, stand in line at the storeroom for personal belongings, and hide them in a bag or a suitcase. You'd return from work and stand in line again at the storeroom and take with you what you could foresee you would want overnight. . . .[12]

Those who have never known such extremities have sometimes supposed that property rights are secondary to others. But when men are deprived of all except the relics of property, they cling to these as the last hope against total deprivation and death. Any property that one has is also a toehold on the way to reclaiming dignity, meaning, all

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other rights, legality, and liberty itself.

This, then, was the reign of terror. It is often said nowadays that the Soviet regime is a stable one. If it is, it is testimonial to the effectiveness of terror in producing stability. We come much nearer to the truth, however, when we view it as a lawless regime ruled over by gangsters in the service of ideology. Stability means only that the people are subdued.

The impact of the terror on the prisoners has been examined. It is now in order to explore the effect on the population in general.

Next: *8. Russia: Impotent Populace and Massive State.*

—FOOTNOTES—

[1]Eugene Lyons, *Worker's Paradise Lost* (New York: Twin Circle, 1967), pp. 137-38.

[2]*Ibid.*, p. 148.

[3]Alexander Dolgun with Patrick Watson, *Alexander Dolgun's Story: An American in the Gulag* (New York: Ballantine, 1975), p. 446.

[4]Robert Conquest, *The Great Terror* (Toronto: Macmillan, 1968), pp. 140-41.

[5]Roy A. Medvedev, *Let History Judge: The Origins and Consequences of Stalinism* (New York: Alfred A. Knopf, 1971), p. 269.

[6]Conquest, *op. cit.*, pp. 167-68.

[7]*Ibid.*, p. 311.

[8]Isaac Don Levine, *Plain Talk* (New Rochelle: Arlington House, 1976), p. 263.

[9]*Ibid.*, p. 266.

[10]*Ibid.*, p. 273.

[11]*Ibid.*, pp. 289-90.

[12]Alexsandr I. Solzhenitsyn, *The Gulag Archipelago Two* (New York: Harper & Row, 1975), p. 171.

IDEAS ON LIBERTY

Peace by Subjection

THE SOCIALIST intends that eternal peace shall reign—the goal of all democratic institutions. But the means by which this peace is to be gained are very different from those employed by the democrats. It will not rest on the power to change peacefully rulers and ruling policy, but on the fact that the regime is made permanent, and that rulers and policy are unchangeable. This, too, is peace; not the peace of progress which Liberalism strives to attain but the peace of the graveyard. It is not the peace of pacifists but of pacifiers, of men of violence who seek to create peace by subjection. Every absolutist makes such peace by setting up an absolute domination, and it lasts just as long as his domination can be maintained.

LUDWIG VON MISES, *Socialism*

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Education in a Free Society

Mark Spangler

THE ENTIRE PROCESS of growing older, emerging, and developing oneself is education.

[Man] is learning all the time . . . He learns and forms ideas about the world and the natural laws that govern it. He gains understanding of other people, their desires, how they achieve them, as well as his own desires and how they are to be achieved. He formulates ideas on the nature of man and what his own and others' ends should be in light of this nature. This is a continual process . . .[1]

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[1]Murray N. Rothbard, *Education, Free and Compulsory,* Wichita: Center for Independent Education, 1970, p. 2.

Very simply then, living and becoming educated happen simultaneously.

In a free society an individual is, of course, free to exercise his will and creativity. He is at liberty to combine his energy and resources to enhance his well-being, with one restriction: the use of coercion and fraud to achieve one's ends is forbidden. The state is supposed to protect a person's life and property from the violence of others. The social order is a system of voluntary association and exchange.

Where does the notion of formal education fit into this scheme? Education would be one of many services provided through the market. Usually, to learn more advanced and systematic disciplines requires the aid of instructors. Also, some parents may believe a formal school is more appropriate than home instruction for children to learn even basic subjects.

So, where the demand for formal education exists, an entrepreneur will bring together capital, land, and personnel to form an institution of learning. This is no different from publishing houses marketing books and magazines to meet the consumer demand for reading material and self-education. A person's buying the services of an instructor at a local school would be the same as buying a book or magazine at the local newsstand.

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A great diversity exists among individuals. While individuals may share interests, each person has particular characteristics and aptitudes. If and as a civilization progresses beyond the point of minimum subsistence, this human diversity and lack of uniformity becomes more and more apparent. "Since each person is a unique individual, the best type of formal instruction for him is that which suits his own particular individuality."[2]

Just as a myriad of books and magazines exists in the market place to meet diverse tastes, an inconceivable variety of schools would appear to meet individual needs in education. Some schools would operate year round, others part time. The traditionally structured classroom or a "progressive," open classroom may be offered. Perhaps a student would choose several courses or just one at a time. A host of trade, intellectual, scientific, athletic, and religious schools would exist. The types and combinations go on and on; but, in short, a person will go to the school for which he is best suited.

Public schooling suppresses the diversity among individuals. A public school is a bureaucracy and must necessarily operate under a set of strict, detailed rules and regulations. Change in a public school comes only after public meetings, school board meetings, and voting procedures, and this must be done for each issue.

In addition, public schools prescribe standards of instruction which apply to all students. A uniform code is imposed on all students, and this represses diversity and ignores individual needs. Students of all types are placed in the same classroom. True, the high schools offer several curriculums, such as vocation, business, or academic; but within each of these areas, uniform standards are still imposed on the students. Individual needs are comparatively ignored under public schooling.

In an unhampered market economy, firms must continually adjust to the demands of buyers. To stay in business, private schools would have to quickly adjust to the buyers of educational services. Private schools would compete to fulfill individual educational needs.

Who in society—the parent or the state—is in a better position to know the educational needs of a child? Naturally, parents know their children best and should be able to decide what type of schooling is suited for the children. Yet, public schooling virtually deprives parents of this right. School authorities tax away parents' income and operate the school system as they see fit. The public school can even

[2] *Ibid*, p. 6.

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become a machine to shape the child, as John Stuart Mill wrote:

> A general state education is a mere contrivance for moulding people to be exactly like one another; and the mould in which it casts them is that which pleases the predominant power in the government . . .

This leads to a "battle" for power over the school authority. Concerned parents will want to see their ideas on education implemented in the school system. But no matter whose methods are put into action, other parents will be victimized by public schooling, because they will be stripped of educating their children as they see best. An environment of conflict is created.

Private schools competing for the consumers' dollars would eliminate such a situation. The present political school board battles over controversies such as sex education in the schools would be totally foreign to schooling methods under a free economy. Parents would decide if and when their child would have formal schooling in sex education and then simply pick an appropriate school.

Perhaps what is most disheartening and revolting about popular public schooling are the compulsory attendance laws. Parents must send their children to school, either to a private school or to the one state school designated in the district. And private schools today are no real escape because they must meet state standards and regulations, and parents must first pay for public schooling. Such coercion is no teaching device. "No one can be made to learn. Only those who wish to learn can or ever will do so."[3]

One only needs to return to the example of books and magazines to realize the alarming condition of public education. Who would not be shocked if a government authority decided to provide magazines and books, outlawed all other literature that did not meet government standards, and furthermore required persons to read them. What a blatant denial of individual liberty! Yet, this is exactly the case in public schooling, and it is a far cry from the education to be expected in a truly free society.

If a free society is to survive, private property as the means of producing goods and services must survive. And this applies particularly in matters of education—the process of growing and living. Any need for formal education is provided through free markets—without coercion—adjusting to the demands of parents and children. In a free society, a student is free to choose his educators.

[3]Leonard E. Read, *Comes The Dawn*, Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, Inc., 1976, p. 4.

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Madison's Answer to Machiavelli

John Wesley Young

AN ABIDING PROBLEM in political thought, one that has vexed the soul of many a philosopher and statesman, is the problem of how to establish and keep order in society. Without order, without accepted standards of civility and right conduct, a nation will lack peace, justice, and prosperity. Without order it will sink backward into barbarism and brute existence.

The problem of order is especially complex for peoples who live under representative governments. Dictators can brandish the bayonet and the bludgeon to restrain and humble their subjects, but on what can republics depend? How can a self-governing citizenry, the repositories of political sovereignty in a free society, rule themselves equitably and with dignity? How can they live together in liberty without soon abusing that liberty and butchering one another like savages?

The answer is that to balance the blessings of order and liberty, republics must depend upon the virtue of the people themselves. But how to plant in the breasts of the people those good old republican virtues—honesty, frugality, temperance, self-sacrifice, and vigilance against tyranny—without which they will descend into anarchy and ultimate despotism, the victims of an enterprising Napoleon or Caesar?

There is one medium, important above all others, for transmitting virtue to republican populaces: religion. As Washington stated in his Farewell Address, "Of all the

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dispositions and habits which lead to political prosperity, religion and morality are indispensable supports." But that suggests yet another question: What should be the legal relation of religion to government in a republic? Broadly speaking, among republicans there are two schools of thought on the subject.

> "Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports."
>
> *George Washington*

Two Points of View

One school, a comparatively recent development in political thought, contends that the best approach to religion in republics is simply to make government leave it alone. To entangle church with state, it is argued, will surely corrupt both. The church best serves society when it is free from interference by civil government.

The other school, a much older one, advocates using the authority of republican government to foster and maintain religion—that is, to "establish" it, either through outright legal recognition and subsidization, or through less comprehensive forms of assistance, such as sabbath laws or religious tests for public office. Since virtue is necessary to the prosperity and progress of a republic, and religion is necessary to virtue, we ought—or so the reasoning goes—to use the power of government to promote religion among the citizens. To many spokesmen for this school it does not seem to matter so much *which* religion or *which* form of Christianity is promoted as that the religion should help produce dutiful and patriotic men and women.

Consider the views of one of these spokesmen, Niccolò Machiavelli of Florence (1469-1527). Better known for having authored *The Prince*, a kind of handbook for intelligent tyrants, Machiavelli, in a puzzling and perverse way, was actually an ardent apologist for popular government. His study of ancient history convinced Machiavelli that, as he writes in his *Discourses on the First Ten Books of Titus Livius*, "the observance of divine institutions is the cause of the greatness of republics." Neglect such observance, Machiavelli warns, and a republic perishes. "For where the fear of God is wanting, there the country will come to ruin, unless it be sustained by the fear of the prince, which may temporarily supply the want of religion."[1] In that case, of course, a republic ceases to be a republic. Religion, then, is essential to republics because it gives them cohesion and durability.

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The best republicans are pious republicans.

So far, so fine. But interestingly enough, Machiavelli singles out for praise the legendary Sabine king, Numa Pompilius, who took the early Romans, "a very savage people," and taught them habits of obedience by using religion as a social cement. Indeed, Machiavelli attributes more historical importance to Numa than to Romulus, Rome's founder; for Numa's invention of religious forms made possible the rise of Rome to republican greatness.[2]

And just how did Numa use religion as a social cement? Machiavelli doesn't say in great detail, but we learn from Plutarch, an ancient Greek historian, that Numa filled the imaginations of Romans "with religious terrors, professing that strange apparitions had been seen, and dreadful voices heard; thus subduing and humbling their minds by a sense of supernatural fears."[3]

In other words, Numa exploited the superstitions of a primitive people. Machiavelli himself notes approvingly that, throughout the period of the Republic, religious sanctions were sometimes used with great effect to inspire, discipline and direct the Roman armies "on the eve of battle with that confidence which is the surest guaranty of victory."[4] For example, during the long siege of the city of Veii in the fourth century B.C., when the Roman troops grew weary and threatened to quit the campaign, their generals told them that some of the sacred oracles had forecast the fall of the city when Lake Albano, in central Italy, should overflow its banks, as in fact it had recently done. Actually the oracles had made no such forecast; but the Roman regulars did not know that. Their resolve to fight on revived and toughened, and finally they seized the city.[5]

Its Use to the State

Observe that Machiavelli's concern is not for the truth of the sacred "prophecy," which he well knows was a fraud, but rather for its effect on the army, its utility to the Roman state. It spurred the soldiers' spirits, brought about the defeat of an enemy, and hence helped to make the world safe for Roman republicanism. It worked; therefore it was good.

> And therefore everything that tends to favor religion (even though it were believed to be false) should be received and availed of to strengthen it . . . Such was, in fact, the practice observed by sagacious men [in antiquity]; which has given rise to the belief in the miracles that are celebrated in religions, however false they may be. For the sagacious rulers have given these miracles increased importance, no matter whence

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or how they originated; and their authority afterwards gave them credence with the people. Rome had many such miracles . . .[6]

Machiavelli thinks that even in modern times men, however sophisticated, can be led to believe in sham miracles and supernatural manifestations. As proof he points to Florence, the cultured Italian city where, for a short time in the late fifteenth century, many normally staid and stolid people were mesmerized by the preaching of Savonarola, the firebreathing Dominican reformer who claimed to have conversed with God.[7]

Now the trouble with this utilitarian approach to the problem of order, religion and republican virtue is just that—its utilitarianism. Besides its utter contempt for truthfulness, the spirit of it is decidedly unrepublican. For in picking out the Roman solution to the problem, Machiavelli has not picked out a peculiarly *republican* solution. Roman religion, in fact, was no different in its essential relation to the state from the religions of Egypt, the Mesopotamian kingdoms, the Seleucid Empire, or any other ancient autocracy. It, too, like the other religions, proceeded *downward* from the leaders to the masses. Often the leaders employed it as a propaganda tool, a device for duping the multitude.

Machiavelli does not dwell, for instance, on the exceptionally cynical use made of religion in the later Roman Republic, especially during the civil wars that climaxed with Julius Caesar's dictatorship. Religion became in great degree the instrument of oligarchs and demagogues. Many important Roman statesmen of the period—Servilius, Lepidus, Pompey, Cicero, and Caesar himself, among others—were also priests of the state religion, and they manipulated that religion in order to reinforce their grip on the government.[8] It is difficult to reconcile this sort of practice with the power of free choice implicit in republicanism.

> " . . . where the fear of God is wanting, there the country will come to ruin, unless it be sustained by the fear of the prince, which may temporarily supply the want of religion."
>
> *Machiavelli*

But in vain would anyone raise that objection to Machiavelli. For he *wants* utilitarian religion—not quite in the form into which it degenerated in Rome, perhaps, but at any rate an established religion, a religion that is only an arm or extension of the state, a religion that teaches the martial virtues. This explains Machiavelli's personal hostil-

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ity to Christianity as he perceives it to be lived by men of his age. Because of its other-worldliness, he feels, Christianity has made them too effeminate, too indifferent to their country's liberty, too apt "to suffer than to achieve great deeds."[9] He doesn't care a jot whether religion edifies or uplifts individuals, so long as it buoys the state.

Religion as a Social Cement

Without doubt the Machiavellian position is an extreme one. And yet it is true that after Machiavelli's death, and well into the modern era, most republicans continued to treat religion, the Christian religion included, as a social cement more than a "sovereign balm" for the soul. They may have lacked Machiavelli's cynicism, they may even have been devout believers, but in the matter of religion's relation to republican government they were still Machiavellians after a fashion.

Think of any famous republican political philosopher prior to about 1780, and almost certainly he will have advocated in some sense the mixing of politics with formal religion. He may, like the Genevese Rousseau or the Englishman James Harrington, have favored toleration for most dissenting sects, but he could not have brought himself to call for complete severance of church from state.[10] He could not have visualized full religious liberty—an almost untried freedom until the eighteenth century—invigorating a republic. To abandon men wholly to their private judgment in religion, his instincts would have told him, would kindle social chaos and destroy the state, no matter how well-ordered and free its purely political institutions might be. Remove the official religious props and any popular government would crash down like the house of Dagon.

Not for more than two centuries after Machiavelli did any prominent republican sally forth to assault such ideas. Significantly, the definitive refutation of Machiavelli came, not from the continent of Europe, but from the New World, from the pen of James Madison, quite possibly the profoundest political thinker who ever lived.

Spiritual Crisis in 1780's

A bit of historical background is necessary. In the early 1780's the thirteen newly-confederated republics of America were faced with a spiritual crisis no less grave than the political crisis which had forced them, in 1776, to cut their connection with the British Empire. As so often happens in the midst of war and in its aftermath, America suffered a sort of moral depression. This is an often-overlooked aspect

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of our Revolutionary history, but it was much commented-on by contemporaries.

Political and moral corruption were reportedly proliferating and threatening to unfit the people for republican freedom. Newspapers bemoaned the evaporation of virtue because of "the visible declension of religion, . . . the rapid progress of licentious manners, and open profanity."[11] Clergymen warned of impending divine judgment upon an impenitent people, but they were plainly not the only ones alarmed. "Justice & Virtue," wrote George Mason to Patrick Henry in May 1783, "are the vital Principles of republican Government; but among us, a Depravity of Manners & Morals prevails, to the Destruction of all Confidence between Man & Man."[12] Mason wondered if America's independence would prove a blessing or a curse.

What would the new republican governments do, in these circumstances, to retrieve the disappearing virtue of the people?

For a time they yielded, or seemed to yield, to the utilitarian temptation. To cite the most notable example, Article II of the Massachusetts State Constitution, drawn up in 1780, granted freedom of worship "in the manner and season most agreeable to the dictates of [the citizen's] own conscience"; but the very next article,

> Think of any famous republican political philosopher prior to about 1780, and almost certainly he will have advocated in some sense the mixing of politics with formal religion.

declaring that "the happiness of a people, and the good order and preservation of civil government, essentially depend upon piety, religion and morality," empowered the state legislature to require local governments and "religious societies" to provide for "public worship of GOD, and for the support and maintenance of public protestant teachers of piety, religion and morality, in all cases where such provision shall not be made voluntarily."[13] In other words, the Massachusetts constitution-makers were harnessing religion—in this instance "protestant" religion—to the state.

Virginia Considers Tax Support of Teachers

Similarly, in 1784, a bill was introduced in the Virginia General Assembly calling for an annual tax assessment to support teachers of the Christian religion in "the general diffusion of Christian knowledge," knowledge which would help "preserve the peace of

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society."[14] With apparent impartiality the bill would have permitted each taxpayer to designate which Christian denomination his tax contribution would go to. Along with many Presbyterians and the recently disestablished Episcopal Church, honest republicans like Patrick Henry, George Washington, John Marshall, and Richard Henry Lee supported the measure.

Legislative opponents of the assessment, among them James Madison, managed to postpone for almost one year a final vote on the bill. Meanwhile they launched a campaign to work up opposition to it from the grassroots. The big gun in their arsenal of intellectual weapons was a pamphlet by Madison, "A Memorial and Remonstrance Against Religious Assessments."[15]

In the numerous collections of American historical documents, Madison's pamphlet does not appear nearly as often as Thomas Jefferson's more eloquent Statute for Religious Freedom, but Madison's is in truth the superior statement on religious rights. It should be read in its entirety, but for our purposes we may draw out of it that thread of thought which refutes the Machiavellian thesis. Without referring directly to the Florentine, Madison demolishes with impeccable logic the old Machiavellian argument that established religion is necessary to sound civil government.

To begin with, civil society, according to Madison, is not the highest good. Other things take precedence over it. A man's duty to his Creator, for example, is prior to any duty to society. Government, even with the force of majority opinion pressed behind it, must not encroach upon man's natural right to worship the Almighty as conscience obliges him. Obedience belongs first to God, the "Universal Sovereign." Civil obligations come second.

A Power to be Feared

Notice here that Madison has stood Machiavelli on his head. The Florentine republican makes the stability of popular government an end in itself, with individual rights tacitly subordinated to that end. But to the Virginian any truly popular government will respect popular rights, especially the right of free worship. This conviction of Madison necessarily determines his attitude to established religion. Because he would protect men's rights and their power of free choice, he must oppose the slightest suggestion of enforced conformity to a particular religious system, Christian or non-Christian, even if the state needs the underpinning of virtue that religion provides.

After all, if the state has power to

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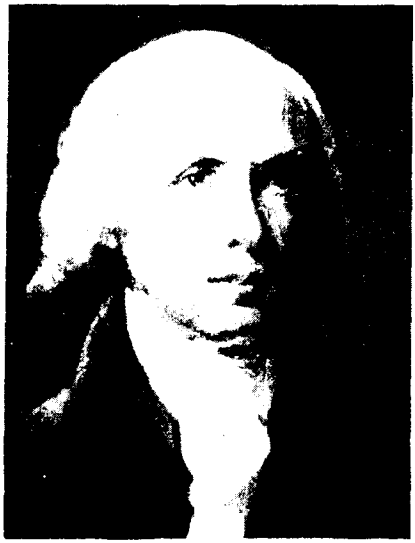

JAMES MADISON

grant recognition to a religion, it has also the power to suppress *other religions and religious opi*nions. And that is more power than can safely be entrusted to it, power enough to pervert the ends for which genuinely republican government is instituted.

As to one of the arguments put forth by the friends of establishment, that it is needed to help religion—this, says Madison, is unhistorical nonsense. Consider the history of the Christian church. At what point in its development was Christianity at its purest and most vigorous—before or after Constantine? In fact it flourished in "the ages prior to its incorporation with Civil policy," and this in spite of prodigious resistance to its growth.

On the other hand, fifteen centuries of establishment have very nearly emaciated Christianity in those countries where one or another version of it has received official sanction. And if enacted, the Virginia assessment bill—which Madison regards as in effect an establishment of religion—would actually obstruct the progress of Christianity. It would make Virginia little different from those heathen countries that seek to shut out the light of Christian revelation, for "instead of levelling as far as possible, every obstacle to the victorious progress of truth, the Bill with an ignoble and unchristian timidity would circumscribe it, with a wall of defence, against the encroachments of error." That wall would frighten away potential converts to Christianity. Benefit religion? Establishment destroys it.

Prelude to Tyranny

Now if religion is better off without direct government support, then government itself need not rest on an official religious foundation. For if government is helped by healthy religion, and if religion is healthiest when unbridled by the state, then government ought for its own sake to leave it be. It should not, in Madison's words, "employ Religion as an engine of Civil

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policy." To do so would be "an unhallowed perversion of the means of salvation."

In fine, legal establishments of religion plunge a people into spiritual or political tyranny. "In no instance have they been seen the guardians of the liberties of the people." A just government (and to Madison "just" means republican) "will be best supported by protecting every citizen in the enjoyment of his Religion with the same equal hand which protects his person and his property; by neither invading the equal rights of any Sect, nor suffering any Sect to invade those of another."

It is important to grasp what Madison is saying here. He is saying that republican government does itself a favor when it relaxes the political control of religion in society—an assertion that would have shocked Machiavelli, if anything could. Government interference will destroy genuine religion and thereby thwart the supposed purpose for interfering in the first place, which is to aid religion and thus republican government. But relax the controls and religion can prosper; and, as Machiavelli himself would say, when religion prospers the state prospers.

Madison's fellow Virginians sided with him in the debate against Machiavelli, for popular pressure brought on defeat of the assessment measure. But when the General Assembly proceeded to enact in 1786 Jefferson's bill for complete religious liberty, lamentations went up elsewhere, especially over New England. By disestablishing religion, declared one northern critic, the Virginia legislators have crushed "the most powerful seeds of that very virtue it must be supposed they wish to see flourish in the state they represent."[16]

Without referring directly to the Florentine, Madison demolishes with impeccable logic the old Machiavellian argument that established religion is necessary to sound government.

But had they? Years later, when a correspondent asked Madison about the state of religion and morals in Virginia, Madison replied that, contrary to some reports, religion had not been blown to pieces by disestablishment. The number of denominations had multiplied and, despite failure of the assessment bill to pass, knowledge of the Christian religion had increased:

> Religious instruction is now diffused throughout the community by preachers of every sect with almost equal zeal . . . The qualifications of the preachers, too among the new sects

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where there was the greatest deficiency, are understood to be improving. . . . The civil government, though bereft of everything like an associated hierarchy, possesses the requisite stability and performs its functions with complete success; whilst the number, the industry, and the morality of the priesthood, and the devotion of the people have been manifestly increased by the total separation of the church from the state.[17]

A prejudiced appraisal? Possibly. But such evidence as survives seems to support Madison. We know, for instance, that among Baptists in the James River settlements there commenced in 1785, the year of the assessment's defeat, a revival that lasted well into the 1790's and spread throughout Virginia to other dissenting sects. Even the old Anglican-Episcopal Church appears to have profited in the long run from disestablishment.[18]

Nor did the nation in general fail to profit from Virginia's experience. Largely at Madison's instigation, religious liberty became a constitutional (and republican) principle with passage of the First Amendment, so that Tocqueville, the astute French observer who visited America in the 1830's, could write:

For most people in the United States religion, too, is republican, for the truths of the other world are held subject to private judgment, just as in politics the care for men's temporal interests is left to the good sense of all. Each man is allowed to choose freely the path that will lead him to heaven, just as the law recognizes each citizen's right to choose his own government.[19]

Such freedom, Tocqueville believed, had animated religion in America, causing it to hold "quiet sway" over the country while in Europe the progress of secular social revolution was sweeping away established churches in its fury.

Unanswered Questions

All this doesn't answer the question of what happens to republican virtue when religion decays of its own accord, when republican Christians, for instance, lose their "first love" and lapse into vice and folly. Nor does it answer a second question implied, perhaps, in the first: Does history turn in cycles, making the rise and decline of religion, and hence of republican government, inevitable? Personally this writer sees few things inevitable in a world where the great conditioning reality is man's freedom of will. But let the philosophers grapple with that one.

The truth that Madison taught us, the thing which ought by now to be burned into our brains, is that republican government can do nothing to help religion except to guard jealously the *freedom* of religion. And, in the final analysis, as Madison showed, that is much.

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Whatever becomes of the American Republic in the years ahead, let us do our best to see that Madison's answer to Machiavelli is never forgotten.

—FOOTNOTES—

[1]Machiavelli, *Discourses*, in *The Prince and the Discourses* (New York: Modern Library, 1940), p. 148.

[2]*Ibid.*, pp. 145-48.

[3]*Plutarch's Lives*, trans. John Dryden, rev. A.H. Clough, 5 vols. (Boston: Little, Brown and Co., 1910), 1:137.

[4]*Discourses*, p. 158.

[5]*Ibid.*, pp. 153-54.

[6]*Ibid.*, p. 150.

[7]*Ibid.*, pp. 148-49.

[8]See Lily Ross Taylor, *Party Politics in the Age of Caesar* (Berkeley and Los Angeles: University of California Press, 1961), pp. 76-97.

[9]*Discourses*, p. 285.

[10]See, e.g., Rousseau's chapter "Concerning Civil Religion" in *The Social Contract*, trans. Willmoore Kendall (Chicago: Henry Regnery Co., 1954), pp. 148-62. On Harrington see Perez Zagorin, *A History of Political Thought in the English Revolution* (London: Routledge and Kegan Paul, 1954), p. 141.

[11]Charleston *S.-C. and American Gazette*, 21 January 1779, quoted in Gordon S. Wood, *The Creation of the American Republic, 1776-1787* (Chapel Hill: University of North Carolina Press, 1969), p. 417.

[12]Mason to Patrick Henry, 6 May 1783, in *The Papers of George Mason*, ed. Robert A. Rutland, 3 vols. (Chapel Hill: University of North Carolina Press, 1970), 2:770.

[13]The Massachusetts Constitution of 1780, in *The Popular Sources of Authority*, ed. Oscar and Mary Handlin (Cambridge: Harvard University Press, Belknap Press, 1966), pp. 442-43.

[14]Charles F. James, *Documentary History of the Struggle for Religious Liberty in Virginia* (New York: Da Capo Press, 1971), p. 129. On the religious controversy in Virginia see John M. Mecklin, *The Story of American Dissent* (New York: Harcourt, Brace and Co., 1934), pp. 264-83.

[15]For full text see *The Complete Madison*, ed. Saul K. Padover (New York: Harper and Brothers, 1953), pp. 299-306.

[16][John Swanwick], *Considerations on an Act of the Legislature of Virginia, Entitled an Act for the Establishment of Religious Freedom* (Philadelphia, 1786), p. 6, quoted in Wood, *Creation of the American Republic*, p. 427n.

[17]Madison to Robert Walsh, 2 March 1819, in *The Writings of James Madison*, ed. Gaillard Hunt, 9 vols. (New York: G.P. Putnam's Sons, 1908), 8:430-32. Spelling and punctuation updated here.

[18]See James, *Documentary History*, pp. 147-49; William Henry Foote, *Sketches of Virginia*, new ed. (Richmond, Va.: John Knox Press, 1966), pp. 348, 412-29; George MacLaren Brydon, *Virginia's Mother Church*, 2 vols. (Philadelphia: Church Historical Society, 1952), 2:506-7.

[19]Tocqueville, *Democracy in America*, ed. J.P. Mayer, trans. George Lawrence (Garden City, N.Y.: Doubleday Anchor Books, 1969), p. 397. For a classic essay on separation of church and state, and how that principle prospered American government and religion in the early days of the Republic, see *Ibid.*, pp. 294-301.

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Henry Hazlitt

The Specter of "Unused Capacity"

ONE of the most frequent excuses for inflation is that if a little extra money is printed its effect won't be to raise prices but only to increase the volume of sales and production; because at the moment the new issues of money are being recommended industry is not working at "full capacity."

In the month, say, that the new dose of inflation is being advocated, the official estimates show that industrial plants are working at only 70 or 80 per cent of capacity. Therefore, when the new inflation puts more money into the hands of consumers, they will use it to buy more goods. Manufacturers will simply increase their production to meet the increased demand, and prices will not rise until after plants are working at "full capacity" and cannot increase output further. At that point the issue of new money can simply be stopped.

The writer mainly responsible for the popularity of this theory is John Maynard Keynes. It is akin to the same writer's full-employment argument. It is, in fact, part of the same argument; because for Keynes the supreme economic goal, the *summum bonum*, was the uninterrupted full employment of men and resources. What the cost of achiev-

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Barron's*, *Human Events* and many others. Best known of his books are *Economics in One Lesson*, *The Failure of the "New Economics,"* *The Foundations of Morality*, and *What You Should Know About Inflation*.

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ing this might be in other respects was simply disregarded.

It may be thought that the criticisms that the present writer and others have already made of the "full-employment" goal, and of the argument that inflation is the way to achieve it, must apply equally to the "full-capacity" goal, and therefore need not be repeated. But though the criticisms are of the same general nature, an analysis of the fallacies of the "full-capacity" goal makes it possible to bring out with much greater sharpness some of the naiveties and errors in the "full employment" goal as well.

Varying Views or Definitions of "Full Capacity"

We must begin with a definitional question. What is "full capacity?" The question is seldom raised in popular discussion; but as soon as we examine the problem seriously, we find a wide range in possible definitions. If we think of full capacity from a purely engineering standpoint, then we must think of what could be turned out if factories were operated around the clock, twenty-four hours a day, seven days a week. We would then also have to assume unlimited supplies of labor, with the exact types and mix of skills required, working three or four shifts a week, as well as unlimited supplies of raw materials and other inputs.

A situation like this may be actually possible or desirable in a few industries in wartime or even for a few weeks or months in peacetime; but it would obviously involve mounting problems. Hardly any economist would regard it as an ideal state of affairs.

A second concept of full capacity would envisage maximum output under a "normal" operating schedule—with the customary number of hours per shift and days per week, with downtime for repair and maintenance of machinery. If this concept also assumed high-cost, inefficient facilities brought into production, the resulting output might be defined as the maximum practical capacity. This is the figure commonly used in the official estimates of unused capacity rates.

But this figure refers to potential physical capacity rather than to the optimum rate from an economic standpoint. Few companies want to push their output to the maximum practical level. They would prefer to hold it to the level that achieves maximum long-run profits or other objectives. This involves the assumption that they can obtain all the inputs they need at existing costs per unit and that they can sell unlimited quantities of output at existing prices. It also involves the assumption that they will not be forced into continuous use of their comparatively obsolete equipment.

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This output level has been called "preferred capacity."[1]

A Department of Commerce study found that for all manufacturers, the preferred operating rate during the period from 1965 to 1973 was 94 to 95 per cent, considerably above the actual rates.

There are several periodic estimates published of unused manufacturing capacity rates. The two most widely cited are that of the Bureau of Economic Analysis in the Department of Commerce, and that of the Federal Reserve Board. There are also a few private estimates, notably by McGraw-Hill Publications and by the Wharton School at the University of Pennsylvania.

All use slightly different methods. The BEA (Bureau of Economic Analysis) obtains its rates by a survey of some 3,000 companies. The respondents generally calculate their utilization rates against maximum practical capacity. It is obvious that each individual answer must itself be an estimate rather than a precisely known figure.

This is one reason why we cannot depend on the accuracy of the index. As Alan E. Shameer, associate economist of the General Electric Company, put it: "We have dozens of different plants, producing everything from jet engines to plastics to coal to washing machines. How can we possibly say with precision that the company is operating at such-and-such a rate of capacity? . . . It's a jelly-like concept."[2]

Gathering the Statistics

If we take the BEA figures of capacity utilization rates for all manufacturers for the eight-year period from December 1965 to December 1973, we find that they ranged from a peak of 87 per cent in June 1966 to a trough of 79 per cent in September 1970. The difference between the peak and trough rates, in other words, was only 8 percentage points. More recent figures tend to show a somewhat wider range. For example, the Federal Reserve Board figure of capacity utilization for all manufacturing in 1974 was 84.2 per cent, and in 1975 it was 73.6 per cent, a difference of 10.6 percentage points within a single year.

The FRB and BEA figures do not today tend to differ widely: the FRB estimate of average capacity utilization in 1976 was 80.1 per cent, and the BEA figure 81.2. But a major effort to improve its past

[1] For a thoughtful discussion of these conceptual and definitional problems, see "The Utilization of Manufacturing Capacity, 1965-73" by Marie P. Hertzberg, Alfred I. Jacobs, and Jon E. Trevathan, in the *Survey of Current Business*, July 1974, pp. 47-57, published by the U.S. Department of Commerce.

[2] *The Wall Street Journal*, March 11, 1977.

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statistics was made recently by the Federal Reserve Board, when it started to take into fuller account, among other things, operations at relatively small companies. The upshot was that factory operations as a whole turned out to be much higher than the Fed originally had supposed. For the 1976 third quarter, for example, the plant-operating figure was boosted sharply to 80.9 per cent from the previous 73.6 per cent. Perhaps further investigation may result in further revision of the figure, up or down. This once more raises the question whether the utilization-rate figure is worth using as a "policy-making tool"—even if we were to grant that government bureaucrats should ever attempt to "fine-tune" the economy.

Averages Hide Variations

When we ask why the cyclical range in the official utilization-rate estimates has not been greater, the main answer is clear. These figures represent the *average* capacity utilization rate of *all* plants in *all* industries. Averages tend always to conceal wide divergence and dispersion. In addition to its overall figure, the BEA gives separate capacity-utilization rates for about a dozen different leading industries. We have seen that the spread between the peak and the trough rates of capacity utilization for all industries from 1965 to 1973 was only 8 percentage points. But the spread in the (non-electrical) machinery industry was 15, in the rubber industry 22, and in the motor-vehicle industry 42 percentage points.

Even here, however, the real disparities between capacity utilization in different plants and factories were largely concealed because the foregoing figures are again the *average* figures for entire industries, lumping the marginal and the most successful companies together.

To make the real problem clearer: Let us suppose that at the moment the average capacity utilization rate for all manufacturing is 80 per cent. A Keynesian might then say that if we increased the money supply by 20 per cent the result would be stimulating but not inflationary, because this new money would merely supply the purchasing power to buy 20 per cent more goods, and industry already happens to have the idle capacity to turn out that much more goods "without inflation" or unwanted price increases.

But suppose this 80 per cent average figure, though reasonably accurate, conceals a real situation in which the capacity utilization rate in different plants actually ranges from a low of 60 to a high of 100 per cent, with the lowest 11 per cent of plants operating at only 60

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per cent, the next 11 per cent segment above that operating at 65 per cent, the third segment at 70 per cent, and so on, with the ninth and highest segment operating at full capacity.

Unanticipated Results

Supposing the Keynesian scheme otherwise operates in accordance with the schemers' intentions, what would be the result? All factories would be operating, or trying to operate, at a rate 20 per cent higher than before. The half that had been operating at less than 80 per cent could presumably do this, but the half that had already been operating above that rate would be running into bottlenecks and shortages in plant and equipment, not to speak of the problems of all manufacturers in buying additional specialized inputs and hiring additional specialized labor. Prices—and wage rates and other costs—would begin to soar.

(Of course the neat and even distribution of dispersion that my hypothetical figures suggest would not occur. I have assumed it merely to simplify the exposition. But it is important to keep in mind that there is bound to be some such dispersion.)

Our analysis brings out the simplistic and completely unreal nature of the Keynesian assumptions, and of so-called "macroeconomics" in general. This macroeconomics deals almost exclusively in averages and aggregates. In doing so it falsifies causation, and neglects individual processes, individual industries, individual companies, individual prices, and the immense diversity of services and products.

Unrealistic Assumptions

The Keynesian economic heaven is apparently one in which there is constant full employment of men and plants and equipment. Nobody and no machine is temporarily idle because the economy is in transition. The balance and proportions among the thousands of individual industries and products remain constantly the same. No industry is contracting and laying off help because of declining demand for its particular product, and therefore no capital and labor can be released so that other industries can expand. No processes, machines, or plants become obsolete because of new methods or new inventions, and therefore never have to be shut down, idled, or scrapped. Every industry is apparently turning out a homogeneous and unchanging product, and can hire additional workers from a sort of homogeneous labor pool. There is no such thing as a surplus or shortage of specialized skills. Unemployment is solely the result of "insufficient purchasing

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power," and can be remedied simply by increasing that purchasing power.

Not only could such an economy exist only in some never-never land, but no serious economist could regard it as desirable. It is the result of turning full employment and full utilization of capacity, which are merely means, into the overriding economic end.

Let us turn our attention to a few actual consequences of Keynesian policies that the Keynesians chronically overlook.

They assume that an increased money and credit supply—as long as there is not "full employment" and the economy is not "operating at full capacity"—will not lead to increased wage-rates or increased prices because industry will simply hire previously idle labor and turn out more goods to take care of the increased demand.

Factors Overlooked

This assumption neglects two factors. The first is that average or overall unemployment and average or overall unused capacity are not what count. The percentage of unemployment is different in every industry and locality, and the percentage of unused capacity is different in every plant. When general or special demand increases, shortages will quickly occur at particular localities, of workers with special skills, and bottlenecks will soon develop in individual industries, factories and plants. Capacity is reached when we have fully employed our most scarce resource or complementary productive factor, whether that is an important key industry, or specialized labor, plant, or some raw material. When this situation occurs the price of the scarce factor or factors will begin to soar, and this rise will soon force increases in other wage-rates and prices.

There is a second overlooked factor. Even if the distribution of both unemployed labor and unused capacity were uniform, increased demand would in any case promptly bring a rise of wage-rates and prices. Intelligent speculators (and every businessman and even every consumer must be to some extent a speculator) do not wait until there is an actual shortage of anything before they start bidding up prices; they do this as soon as they foresee the possibility or the probability of a shortage. And the greater the probability seems, the higher they bid. Every successful businessman tends to be successful in proportion to his ability to *anticipate* a change in conditions—to buy or sell before his competitors or the general public are aware of the coming situation. It is only the Keynesians' blindness to this everyday fact of business life which leads them to

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assume and predict that new issues of money will not result in inflation until every man is employed and every factory is going full blast.

Seasonal Fluctuations, and the Need for Reserves

Let us come back now to the specific problem of unused plant capacity. The Keynesians seem to assume that it is both possible and desirable for all plants to work continuously at full capacity. It is neither. The demand for all sorts of products—motor boats, snowplows and lawnmowers, skis and roller skates, overcoats and bathing suits—is seasonal. For that or other reasons, their production tends to be seasonal (even though the output season precedes the selling season). In order that there may be sufficient production at the peak of the season, there must be at least some unused capacity off-season. The unused capacity does not necessarily mean economic waste; it is its *availability when needed* that counts.

For the same reason, when a firm's plant has been working at full capacity for more than a short period, it is probably a sign that the firm has missed an economic opportunity. It should have foreseen this situation and expanded its plant or built a new one to meet the increased demand for its product. Producers, in fact, constantly try to do just this. It has long been recognized that in periods of low operating rates industry does not tend to expand, but that as operating rates increase, there is an increase of investment in new plant. Businessmen recognize that they must normally accept some "surplus" capacity in order to be sure they will have enough when they need it. Not only is it unprofitable for them to be fully using their more obsolescent plants and machines, but they should be periodically replacing them with the most modern and efficient equipment. In brief, the most desirable normal situation for the individual plant owner or manager is one in which there is at least some "unused capacity."

Inflation Builds Uncertainty

In a recent penetrating study,[3] however, M. Kathryn Eickhoff, vice-president and treasurer of Townsend-Greenspan & Company, pointed out that from 1970 till the date her study was made, increased plant operating rates were not leading to investment in new plant as early as they previously did. The "trigger point" that set off new investment seemed to be moving to higher and higher operating rates. That trigger point in 1977 seemed

[3] "Plant vs. Equipment Considerations in the Capital Goods Outlook." Presentation before Cleveland Business Economists Club, Feb. 2, 1977.

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to be an average capacity utilization rate of approximately 87 per cent. This was ominous, because the highest rate in the preceding recovery was 87.6 per cent during 1973, the year the nation moved into double-digit inflation.

What this meant, among other things, was that increased issues of money and credit were tending to lead to output shortages sooner than previously, and therefore were leading to sharper and higher price rises sooner than previously.

Miss Eickhoff also presented an acute analysis of the reasons why inflation and inflationary expectations increase uncertainty and thereby discourage new investment. The greater the uncertainty in the business outlook, she pointed out, the greater becomes the rate of return required for new investment to compensate for that uncertainty, and the fewer the number of projects which will qualify. Inflation, especially when it is expected to accelerate, always increases business uncertainty. Even if overall profits advance in line with the rate of inflation, no single producer can be sure that his profits will rise to the same extent. That will depend upon how much his costs rise relative to all other prices in the economy, and whether or not he can raise his prices correspondingly. As a result, the dispersion of profits among producers increases as the rate of inflation climbs. This dispersion of profits does far more to discourage investment than the prospect of an overall increase of profits does to induce it. In effect, a much higher rate of future discount is applied to inflation-generated profits than to those resulting from normal business operations.

Thus the inflation that the Keynesians and others advocate in order to stimulate employment, production, and investment ends by discouraging, deterring, and diminishing all three.

That Is Prosperity

IDEAS ON LIBERTY

In a free market economy, every worker and investor tends to seek those outlets which will produce what consumers want most, as indicated by the wages and prices consumers will pay. So workers and investors now engaged in satisfying political spending would soon find more profitable outlets satisfying the increased spending of private producers. Everyone would soon have more. That is not a depression. That is prosperity.

PERCY L. GREAVES, JR.,
"Does Government Spending Bring Prosperity?"

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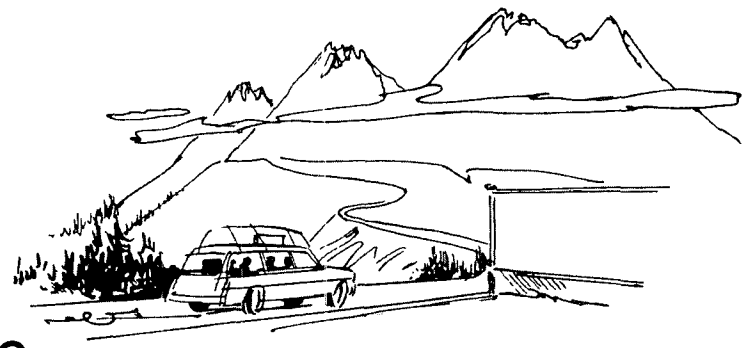

The Next Two Hundred Years

BRANCH RICKEY, the old baseball impresario, had a funny story about a truck driver who, as he approached each turn on a mountain road, murmured to himself, "Trouble ahead, trouble ahead." Whereupon the driver would make the turn only to discover that the road stretched fair and free.

For the past decade we have been like the truck driver. We were threatened with the "population bomb" in the lugubrious works of Paul R. Ehrlich. DDT and other insecticides would kill all the birds, giving us a "silent spring" (Rachel Carson). Our oil leakages and spills in the Santa Barbara Channel and off the coast of Cornwall, when added to all the smaller accidents to tankers and barges, were sounding the death knell for marine life (Jacques Cousteau). The world was running out of raw materials, meaning there were natural limits to growth (the Club of Rome). Oil was only the most conspicuous of the earth's wasting assets (see almost any commentator since the late Harold Ickes, as Secretary of the Interior, started to push the scarcity thesis). As for nuclear power, its alleged dangers have pushed Ralph Nader into invoking "higher law" to justify destroying atomic energy plants in "projective self-defense." "If they don't close those reactors down," said Nader the other day, "we'll have a civil war within five years."

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To cap it all, the world's supply of food was supposed to be at the mercy of coming drought and cold cycles, and even the productive acreage would be ruined by liberal applications of commercial fertilizers that break down the soil structure.

Adding all the dire prophecies together, the "zero growth" movement has taken on a frightening momentum. It takes a bold man to buck the prevalent tide of opinion. Fortunately, for our sanity, we have such a bold man in Herman Kahn, who runs the Hudson Institute. With his associates William Brown and Leon Martel, Kahn has just issued a heartening book called *The Next Two Hundred Years: A Scenario for America and the World* (William Morrow & Co., Inc., 105 Madison Ave., New York, N.Y. 10016, $8.95 cloth, $2.95 paperback). Kahn not only has the boldness to say that the "no growth" movement has no basis in common sense, he proves it by carefully controlled extrapolations from information that is available to any research organization that is willing to do a little patient scratching.

Population and Energy

First, there are the population statistics. In the Nineteen Sixties, when the over-population theory was riding high, the rate of reproduction was definitely slowing down in fifteen developing countries and there was a "probable" decline for eight more. In preindustrial lands, where children are potential farm hands, couples will have seven or eight babies in order to achieve a primitive level of old-age security. But in industrial societies the reproductive "norm" recedes to 2.2 or 2.4 per family. The irony is that the "planned parenthood" movement reached its crest when it was no longer needed. Herman Kahn expects most of the world will repeat the experience of Western Europe and the United States as industrial development spreads.

A stabilized population will still need lots of energy if it is to grow in ways necessary to expanding the good life. Kahn's section on energy is subtitled: "Exhaustible to inexhaustible." Contrary to most commentators, Kahn thinks the "historical" trend of energy costs will continue downward, even though the present price of oil will go on fluctuating. As long as oil sold for less than $5 a barrel, it was bound to displace coal. But now that OPEC oil is selling for twice the old price and more, coal is bound to come back. There is plenty of coal to last for a couple of centuries. And when the cost justifies it, we will be getting oil from shale and from tar sands.

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Looking ahead to the twenty-second century, Kahn is optimistic for all sorts of supposedly far-out energy sources, from ocean thermal power to windmills, and from solar energy panels to nuclear fusion. The 200-mile electric car battery is already in existence; it has only to be made smaller for introduction into compact car models.

Pollution in Control

Kahn and his associates do not scoff at the current demands for cleaner water and air. But they do not like fanatics who are unwilling to make temporary trade-offs when they are economically necessary. We are already meeting most of the sensible standards throughout the U.S. Automotive pollutants such as carbon monoxide and hydrocarbons have been reduced substantially. A real beginning has been made in cleaning up the rivers, streams and lakes of the nation. We will make progress in the treatment of sewage and waste in general when technology makes it possible to recycle everything from sludge to aluminum cans at a profit.

The main problem, at this moment, is to persuade people that they are being scared by bogeymen. "Indeed," says Kahn and his associates, "it is the limits-to-growth position which creates low morale, destroys assurance, undermines the legitimacy of government everywhere, erodes personal and group commitment to constructive activities and encourages obstructiveness to reasonable policies and hopes."

If Kahn can't get this message across to a majority, we will perish through a self-fulfilling prophecy. But Kahn, no pessimist even for a short run, is sure that he is going to be heard.

PLAYING THE PRICE CONTROLS GAME
by Mark Skousen
(Arlington House, New Rochelle, New York 10801, 1977)
254 pages ■ $9.95

Reviewed by Robert P. Vichas

EVEN among those who have survived them, surprisingly few individuals really understand the insidious nature and disastrous effects of price and wage controls. Witness the fact that most consumers favor them at one time or another. Many businessmen accept them. Utility and regulated companies prefer them. Black marketeers love them. Political types praise them. And too many economists worship them.

Milton Friedman has observed that "If the U.S. ever succumbs to

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collectivism, to government control over every facet of our lives, it will not be because socialists win any arguments. It will be through the indirect route of wage and price controls." There has long been a need for a popular book on the subject, and now economist Mark Skousen fills that gap. He has assembled an abundance of evidence, case histories, and examples to convince any interested reader that price controls are a disaster.

For the theoretically minded, there are the traditional economic diagrams; for others, the message is expressed in plain enough terms. Price controls cause shortages, and shortages occur because businesses reduce production of high-volume, low-profit-margin "necessities" and expand output of low-volume, higher profit-margin "luxuries."

A survey at the end of Phase IV of the Nixon freeze revealed the reduction or elimination of 240 product lines including paper, steel, animal feed, and mayonnaise. Nearly every business experienced difficulties in obtaining adequate supplies, as suppliers ceased manufacturing certain vital replacements to concentrate on higher profit-margin components.

Efforts to control the cost of housing offer a prime example of an exercise in futility. Paul Samuelson's popular textbook clearly describes the long run harm of rent controls in France. "France had practically no residential construction from 1941 to 1948 because of rent controls."

Students of price control economics know that shortages, malinvestment, and black markets result when an attempt occurs to subvert basic economic laws. An economy survives these shocks mainly because alternative zones of supply (a substitute term for black markets offered by Gary North in the book's Foreword) keep the system operative—at least for a time.

The last half of the book focuses on these alternatives. The situations discussed by Skousen provide numerous case histories for lecturers, teachers, expert witnesses, and skeptics, demonstrating how creative free market forces emerge even against formidable odds. For the practical minded, the last half of the book contains sound advice for businessmen and consumers who confront present or future price controls.

For over 2000 years societies have experimented with price and wage controls. They have never worked. This book explains why.

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JAMES J. HILL AND THE OPENING OF THE NORTHWEST
by Albro Martin
(Oxford University Press, New York, 1976)
676 pages ■ $19.50

Reviewed by Clarence B. Carson

ST. PAUL, MINNESOTA was little more than a frontier village serving as a shipping point on the Mississippi when James J. Hill arrived there in 1856 from his native Canada. St. Paul, and the surrounding country, had, as we would be likely to say today, two big problems: an energy shortage and need for year-round transportation. The trouble was caused mainly by the winter weather which was, then as now, cold. The river was apt to be frozen over more than half the year making it useless for transportation. People had to devise some means of keeping warm, too, and firewood was in great demand. There was a vast and fertile area west and north of St. Paul for the growing of grain; immigrants were flowing into the area in ever-increasing numbers, but most transport either for them or their produce was rudimentary and unsatisfactory.

To us they might be problems; to James J. Hill they were opportunities. He was not long in going into the energy and transportation business. His first venture in the energy business was the buying and storing of firewood against the winter. He went into transportation at its core, warehousing. With the river closed so much of the year, it was vital to have large storage facilities. As soon as he could command the resources, he went into the river boat business on the Red River as it makes its way into Canada. Here, too, he was confronted with an energy shortage, for that river usually gets very low on water just at the peak of the season.

The future of St. Paul, the Northwest, and James J. Hill lay with railroading, of course. It cannot be said that Hill was the first to grasp the idea that the railroads could do so much toward solving the energy and transportation problems of a vast region. He was, however, a man of vision; he could see possibilities of development amidst what were then only problems and potentialities. But he was hardly the first to turn to railroading. Others built the most vital links between Chicago and St. Paul. Both the Northern Pacific and Canadian Pacific preceded him by years into the Pacific Northwest.

Hill rarely sought to be first, but he always sought to be the most thorough and best. If Hill had lived by a copybook maxim, it would surely have been: "Anything worth doing at all is worth doing well."

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Not just well, either, but superbly. He always insisted that his railroads be built solidly the first time. He paid infinite attention to the details of whatever he was doing. He was, indeed, a master builder and an exemplary entrepreneur.

Albro Martin has told, in this large and impressively printed book, not only the remarkable story of Jim Hill but of his times and of his place in American history. In order to tell the story well Professor Martin had to work on a large canvas, so to speak. The story entails the upper Midwest of the United States, the Mountain states, the Pacific Northwest, and much of Canada as well. It involves the piecing together and building of the Great Northern, the acquisition of the Northern Pacific and the Chicago Burlington and Quincy—a vast railroad network—by Hill and associates.

But the story was hardly confined to this region, for Hill was dependent, too, upon the Eastern United States—Chicago, the Great Lakes, Buffalo, and New York City—and beyond that to Europe and especially London. Once Hill's Great Northern had reached the Pacific Northwest his concerns reached all the way to the Orient. Martin has used his considerable writing skill to put together mainly from primary sources the portrait of James J. Hill against a backdrop of international finance, rampant railroad building, and the ever-present political shenanigans.

There are so many fascinating tales within this vast story that a reader must long for more detail on many of them. The acquisition by Hill and associates of the St. Paul and Pacific Railroad, which did not make it to the Canadian border much less the Pacific, is a tale worth telling on its own. They got a property worth about $20,000,000 by advancing only a few hundred thousand dollars, some rusty rails, they said, and from this small beginning fashioned a railroad empire. The saga of the building of the Great Northern from Montana to the Pacific should rank with the best of western stories. Then there were the clashes between Hill and other great railroad titans—Jay Gould, E.H. Harriman, Van Horne, and many, many others. The Northern Securities Case, which resulted from efforts of Hill, Morgan, and Harriman to keep firm control over the Great Northern, Northern Pacific, and Chicago Burlington and Quincy, is a story of a head-on collision between these business leaders and Theodore Roosevelt.

James J. Hill emerges from Professor Martin's account as an exemplar of free enterprise at its best. Literally, Hill rose from poverty to riches. He had only a few years of

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schooling, but he gained such knowledge as he needed and was believed to be wise by those who knew him in his later years. In a day when land grants and subsidies were virtually considered a requirement for building transcontinentals, Hill built his Great Northern without subsidy or grant. He built well, too, for when roads around him were bankrupting and going into receivership he was prospering.

Hill lived to witness the railroads beginning to become the plaything of politicians and the bête noire of muckrakers. It saddened him, for he had seen with his own eyes the miracle wrought in the land by dependable and cheap transportation. He contributed much to this development, and was ever surprised if anyone thought that he had sought anything but the good of his fellow man—as well as his own good.

Hill's charitable contributions were legion, but he gave as much care in selecting those to whom he would give as to the routes over which his rails would pass. (He attempted to improve the breeding of cattle in his region by raising and giving away bulls to farmers but stopped doing so when he could perceive no good results.)

The story of James J. Hill is inspiration and confirmation for those who believe that the way to solve problems is to allow freedom for men of vision and energy to work on them. A wide reading of this book should increase their tribe.

THE SUPERFLUOUS MEN: CONSERVATIVE CRITICS OF AMERICAN CULTURE, 1900-1945
Edited by Robert M. Crunden
(The University of Texas Press, Austin, Texas 78712, 1977)
289 pages ■ $14.95

Reviewed by Allan C. Brownfeld

A SOCIETY afflicted with contemporaneity faces the danger of a complete loss of the past and all of its lessons. In our own country, even the events of the earlier part of the current century have largely been lost, as have the thoughtful analyses of those who attempted to understand those events and make sense of them.

Professor Robert M. Crunden of the University of Texas has, in this volume, brought together a representative sample of conservative thinking during the first half of the twentieth century. Among those whose work is included are Ralph Adams Cram, Albert Jay Nock, Walter Lippmann, Irving Babbitt, Allen Tate and H.L. Mencken. Needless to say, there is hardly any

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uniformity of opinion to be found in this group.

What is to be found, according to Professor Crunden, is the assumption that the worthwhile things in life cannot be obtained by political means. Conservatives have traditionally opposed governmental interference in society, he concludes, because it impedes the enjoyment of more important concerns.

In an essay entitled "Anarchist's Progress," Albert Jay Nock, discussing the tendency of government power to grow and individual freedom to diminish, writes that, "The general upshot of my observations, however, was to show me that whether in the hands of Liberal or Conservative, Republican or Democrat, and whether under nominal constitutionalism, republicanism or autocracy, the mechanism of the State would work freely and naturally in but one direction, namely: against the welfare of the people." This was written in 1928.

Walter Lippmann, in *The Good Society,* notes that socialism, collectivism, and all forms of government intervention in the market place lead away from freedom and prosperity: "When the collectivist abolishes the market place, all he really does is to locate it in the brains of the planning board. Somehow or other these officials are supposed to know . . . what everyone can do and how willing he is to do it and how well he is able to do it and, also, what everyone needs and how he will prefer to satisfy his needs. . . . If a planning board announced that, henceforth, machines in factories would be run not by electrical power generated in dynamos but by decrees issued by public officials, it would sound absurd. Yet the pretension to regulate the division of labor by abolishing the market and substituting authoritative planners is an idea of the same order."

In an essay originally published in *Harper's* in 1929, John Crowe Ransom, one of the leading Southern agrarian writers, might have been speaking to some of our current educators who think that students rather than teachers should select the curriculum on the basis of "relevance" or convenience. He states that, "The admission that one study is as important as another is a plea in spiritual bankruptcy, and it invites and produces just that ceaseless dissipation of human energies which now defines our intellectual Americanism—it pictures man as a creature without a center, without a substantial core of interests, and unable to give his destiny any direction. In a true society there are historical and philosophical principles which compose the staple of an educational requirement."

Discussing the merits of indivi-

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dualism and the strength of this trait in the American character, George Santayana, in an essay written in 1920, observed that, "Individualism, roughness, and self-trust are supposed to go with selfishness and a cold heart; but I suspect that is a prejudice. It is rather dependence, insecurity, and mutual jostling that poison our placid gregarious brotherhood; and fanciful passionate demands upon people's affections, when they are disappointed, as they soon must be, breed illwill and a final meanness . . . In his affections the American is seldom passionate, often deep, and always kindly . . . But as the American is an individualist his goodwill is not officious. His instinct is to think well of everybody, and to wish everybody well, but in a spirit of rough comradeship, expecting every man to stand on his own legs and to be helpful in his turn. When he has given his neighbour a chance he thinks he has done enough for him . . . It will take some hammering to drive a coddling socialism into America."

H.L. Mencken might have been writing of our current crop of politicians when he discussed the role of politicians in a democratic society in his 1926 book, *Notes on Democracy*. Professor Crunden excerpts an essay on this subject which includes this thought: "The politician . . . is the courtier of democracy . . . For it was of the essence of the courtier's art and mystery that he flattered his employer in order to victimize him, yielded to him in order to rule him. The politician under democracy does precisely the same thing. His business is never what it pretends to be. Ostensibly he is an altruist . . . Actually he is a sturdy rogue whose principal, and often sole aim in life is to butter his parsnips."

Somehow the current generation of college students and teachers seems to be under the impression that the American intellectual tradition is one which has been supportive of government, optimistic about the good politicians can do, and suspicious of freedom, either in the market place or in other areas of life. A careful reading of this volume will quickly disabuse them of this notion. Professor Crunden has done us all a significant service in collecting these essays and making them available for a society which desperately needs to rediscover its own past.

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